

BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

-----In the Matter of----- )  
 )  
PUBLIC UTILITIES COMMISSION ) DOCKET NO. 2013-0141  
 )  
Instituting an Investigation to )  
Reexamine the Existing Decoupling )  
Mechanisms for Hawaiian Electric )  
Company, Inc., Hawaii Electric )  
Light Company, Inc., and Maui )  
Electric Company, Limited. )  
\_\_\_\_\_ )

ORDER NO. 34514

ESTABLISHING PERFORMANCE INCENTIVE MEASURES AND  
ADDRESSING OUTSTANDING SCHEDULE B ISSUES

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## TABLE OF CONTENTS

I.	INTRODUCTION .....	2
II.	PROCEDURAL BACKGROUND .....	5
III.	THE SCHEDULE B ISSUES .....	7
IV.	DISCUSSION .....	12
A.	Conventional Performance Incentive Mechanisms .....	13
1.	Background .....	13
2.	Positions Of The Parties .....	16
3.	Commission Findings And Conclusions .....	27
a.	Reliability PIMs.....	30
b.	Customer Service Quality PIMs.....	32
i.	Call Center Performance PIMs .....	32
ii.	Transaction Satisfaction PIM .....	39
iii.	Customer Complaints PIM .....	42
iv.	Orders And Appointments PIM .....	45
c.	PIM Implementation Provisions.....	45
i.	Magnitude Of Incentives And Penalties .....	46
ii.	Symmetry Of Rewards And Penalties For SAIDI And SAIFI .....	53
iii.	Formulas For Determination of Rewards And Penalties .....	55
d.	PIM Tariffs.....	59
B.	Changes To Improve The Efficiency And Effectiveness Of The General Rate Case And Review Process .....	63
1.	Background .....	63
2.	Positions Of The Parties .....	65
3.	Commission Findings And Conclusions .....	72
C.	Changes To The Energy Cost Adjustment Mechanism .....	77
1.	Background .....	77
2.	Positions Of The Parties .....	79
3.	Findings And Conclusions .....	84

D.	Standards And Guidelines For Revenue Recovery	
	Above Or Outside The Ram Cap .....	87
1.	Background .....	87
2.	Positions Of The Parties .....	92
3.	Findings And Conclusions .....	95
	a. Joint Proposed REIP Framework.....	95
	b. HECO Proposed Standards And Guidelines.....	107
V.	ORDERS .....	119

## ATTACHMENT A

BEFORE THE PUBLIC UTILITIES COMMISSION  
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Light Company, Inc., and Maui )	)	
Electric Company, Limited.	)	
_____	)	

ESTABLISHING PERFORMANCE INCENTIVE MECHANISMS AND  
ADDRESSING OUTSTANDING SCHEDULE B ISSUES

By this Order ("Order"), the commission (a) directs the HECO Companies<sup>1</sup> to submit draft tariffs to implement specific performance incentive mechanisms ("PIMs"), (b) establishes guidelines for interim recovery of revenues for major projects placed in service between general rate cases, and (c) identifies appropriate venues to address several outstanding issues briefed by the Parties as ordered by the commission in this proceeding.

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<sup>1</sup>The "HECO Companies" are Hawaiian Electric Company, Inc. ("HECO"), Hawaii Electric Light Company, Inc. ("HELCO"), and Maui Electric Company, Limited ("MECO").

I.

INTRODUCTION

In this time of great transition in Hawaii's electric power industry, the commission concludes that it is beneficial to implement regulatory mechanisms that explicitly encourage exemplary utility performance. Decoupling, as well as the performance-based incentive mechanisms considered in this docket, are strategies that seek to serve this general purpose. These strategies aspire to align utility behavior with the public interest by addressing and adjusting the utility's financial incentives that exist in the interim periods between general rate cases.

The Revenue Balancing Account ("RBA") decoupling mechanism removes certain financial disincentives to the utility that would otherwise result from implementation of energy efficiency, customer-sited generation, and other factors that reduce electricity sales. Performance Based Regulation ("PBR"),<sup>2</sup> in its original form, seeks to encourage utility operational efficiency and cost control by capping allowed revenues and allowing utility decisions and actions regarding expenditures to directly affect utility bottom line earnings. Ideally,

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<sup>2</sup>"PBR" is used in this Order to refer to both Performance Based Regulation, and Performance Based Ratemaking, as contextually appropriate.

any attained efficiencies and savings are passed on to utility customers as they are incorporated in rates in periodic general rate cases. PBR can also incorporate incentive mechanisms that provide direct financial rewards and penalties to utilities based on measured attainment of performance targets.

One issue and concern that initially prompted this investigatory proceeding was the extent to which the Revenue Adjustment Mechanism ("RAM") decoupling tariff might be operating counter to the public interest by providing insufficient or inappropriate incentives for control of utility expenditures. The RAM was originally implemented to allow reasonable changes to the level of authorized revenues in the interim periods between general rate cases to account for changes in levels of utility investments and expenses. This docket investigated the extent to which the RAM allowed increases in recovered revenues as a direct result of increases in utility expenditures without sufficient regulatory oversight, thereby providing insufficient or inappropriate cost control incentives.

In its March 31, 2015 Decision and Order in this docket<sup>3</sup> ("Schedule B Order"), the commission established a "RAM Cap" which limits interim increases in authorized utility revenues to the

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<sup>3</sup>Order No. 32735, "Modifying Decoupling Mechanisms and Establishing Briefing Schedule," filed on March 31, 2015, in this docket.

rate of inflation between rate cases. By that action, the commission limited the extent to which utility expenditures could directly result in increased rates without explicit regulatory review. The implementation of the RAM Cap also essentially serves to function as one fundamental component of a traditional PBR strategy. By providing a cap on revenues between general rate cases, in conjunction with the three-year rate case cycle, which is already provided as part of the decoupling tariffs, utility operational efficiencies and cost control measures directly affect earnings in the interim period between rate cases.

By this Order, the commission establishes several initial performance incentive mechanisms ("PIMs") which seek to ensure that costs savings between general rate cases are not attained by measures that result in reduced service reliability or customer service quality. As noted in this Order, the commission intends to consider further measures to explicitly encourage utility performance improvements in other pending and/or upcoming dockets, including amendments to the utilities' existing energy cost adjustment mechanisms, establishment of energy policy and cost control PIMs, and implementation of a PBR framework.

This Order also clarifies and establishes guidelines regarding utility applications for interim recovery of net costs

of large projects placed in service between rate cases.<sup>4</sup> The guidelines and provisions for interim recovery set forth in this Order are based on those stipulated to by the HECO Companies and the Consumer Advocate in this docket, pursuant to the request for proposed standards and guidelines in the Schedule B Order.

## II.

### PROCEDURAL BACKGROUND

On May 31, 2013, the commission issued Order No. 31289, initiating this investigation to examine whether the existing decoupling mechanisms, as approved by the commission in the Decision and Order<sup>5</sup> in Docket No. 2008-0274 (the "Decoupling Docket"), effectively serve their intended purposes, are fair to the HECO Companies and the HECO Companies' ratepayers, and are in the public interest.<sup>6</sup>

On October 28, 2013, in Order No. 31635, the commission identified the specific issues to be addressed in the instant docket, and divided those issues into Schedule A Specific Issues

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<sup>4</sup>See the attached Exhibit A: Major Project Interim Recovery ("MPIR") Guidelines ("Guidelines"), discussed in detail below.

<sup>5</sup>"Final Decision and Order and Dissenting Opinion of Leslie H. Kondo, Commissioner," filed on August 31, 2010, in Docket No. 2008-0274 ("Decoupling Order").

<sup>6</sup>In re: Public Util. Comm'n, Docket No. 2008-0274, Order No. 31289, "Initiating Investigation," at 1.



("Schedule A issues"), which were to be addressed on an expedited basis, and Schedule B Specific Issues ("Schedule B issues"), which were to be addressed subsequently in more detail.<sup>7</sup>

On February 7, 2014, the commission issued Order No. 31908, in which it addressed the Schedule A issues, and directed the HECO Companies to make certain modifications to their decoupling mechanisms and to include these modifications in their decoupling filings for March 31, 2014. The commission also deferred certain issues, primarily associated with the posting of performance metrics on each Company's website, for later consideration. On March 11, 2015, the commission issued its Order No. 32701, "Approving The Release Of Performance Metrics, Directing That The Approved Performance Metrics Be Posted To The Websites, And Directing The Parties To Develop Additional Performance Metrics."<sup>8</sup>

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<sup>7</sup>Order No. 31635, "Identifying Issues, Establishing Procedural Schedule For Resolution Of Certain Issues, And Approving, With Modifications, The Parties' Joint Stipulated Procedural Order And Schedule For Resolution Of The Remaining Issues," filed on October 28, 2013.

<sup>8</sup>Order No. 32701, "Approving the Release of Performance Metrics, Directing that the Approved Performance Metrics be Posted to the Websites, and Directing the Parties to Develop Additional Performance Metrics," filed March 11, 2015 ("Order No. 32701").

III.

THE SCHEDULE B ISSUES

The Schedule B issues specified in Order No. 31635 were set forth generally as follows:

GENERAL ISSUE: Whether performance incentives should be incorporated into the RBA, RAM or other utility rate designs or ratemaking procedures.

. . . . .

GENERAL ISSUE: Whether the RAM mechanism should be amended, terminated or replaced.

. . . . .

GENERAL ISSUE: Whether changes should be made to general ratemaking procedures to improve efficiency and/or effectiveness.<sup>9</sup>

In addition, in order to provide further guidance to the Parties, the commission set forth detailed specific sub-issues with respect to each general issue. These specific sub-issues are identified, as applicable, in the discussion of each general issue below.

On May 20, 2014, the HECO Companies, the Consumer Advocate, the County of Hawaii ("COH" or "County"), Hawaii Solar Energy Association ("HSEA"), Blue Planet Foundation ("Blue Planet"), and Hawaii Renewable Energy Alliance ("HREA") filed their Initial Statements of Position ("Initial SOPs")

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<sup>9</sup>Order No. 31635 at 14-21 (capitalization amended; specific sub-issues omitted).

with respect to the Schedule B issues. Each of these Parties also filed Reply Statements of Position on September 15, 2014 ("Reply SOPs"). Between the filing of Initial SOPs and Reply SOPs, the Parties exchanged information requests and responses, and the HECO Companies produced a substantial amount of data.

Based on review of the Parties' filings, in Order No. 32415, "Setting Issues, And Further Amending Schedule For Panel Hearing," filed on October 22, 2014 ("Order No. 32415"), the commission distilled and clarified the issues for hearing as follows:

1. What, if any, performance incentives should be implemented as part of the [RBA] and/or the [RAM]?
2. Whether the RAM should be amended, terminated, or replaced?
3. What specific measures should or could be implemented to establish appropriate cost controls for baseline capital projects?
4. What, if any, of the proposed changes to ratemaking procedures should be pursued?<sup>10</sup>

The commission conducted a panel hearing on October 28 and October 29, 2014. In addition, the commission subsequently issued information requests to the Parties by way of Order No. 32501, "Amending Procedural Schedule And Issuing Information Requests," filed on December 9, 2014

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<sup>10</sup>Order No. 32415 at 2.

("Order No. 32501"). Each of the Parties responded to these requests on December 22, 2014.

The commission issued the Schedule B Order on March 31, 2015, which, among other provisions, retained the RBA decoupling mechanism and made changes to the RAM, including establishing a RAM Cap.

Having reviewed the extensive record compiled with respect to the Schedule B issues, the commission concludes that further changes to the RAM are required and that these changes shall be included in the upcoming decoupling filings due on March 31, 2015:

1. The [RBA] shall be retained. The RBA is the sales decoupling component, which is designed to break the link between the HECO Companies' sales and their total electric revenues by setting the "Target Revenues" to the most recent authorized revenues approved in each utility's most recent rate case.

2. The RAM mechanism shall be modified to include a cap that shall be applied to the total annual RAM Revenue Adjustment. The cap shall limit the automatic component of RAM adjustment increases to an amount equal to or lower than the Gross Domestic Product Price Index ("GDPPI").

...

4. In order to provide a means for timely recovery of expanded capital programs, the Commission will allow the Companies to apply for approval by the Commission, on a case by case basis, to recover revenues outside of and in addition to the capped RAM revenues. The HECO Companies and the Consumer Advocate shall develop criteria for the commission's review for recovery of these costs (which may include consolidated or "programmatic" baseline expenditures) through

the RAM or the Renewable Energy Infrastructure Program ("REIP") surcharge.

5. The changes in Paragraphs 1 through 4 above shall be made effective on an interim basis pending commission resolution of the proceedings concerning the HECO Companies' Power Supply Improvement Plan ("PSIPs") in Docket No. 2014-0183.

6. Given the pendency of several major proceedings, including the proposed merger of Hawaiian Electric Industries ("HEI") with NextEra Energy ("NextEra"), the PSIPs, distributed energy resources, and demand response, the commission will not adopt Performance Based Ratemaking at this time.

7. The commission is establishing further issues for briefing.<sup>11</sup>

Thus, the Schedule B Order did not establish performance incentives or provide for specific changes to ratemaking procedures, but did direct the Parties to submit initial briefs and reply briefs further addressing three specific related issues:

(a) Whether and, if so, how the conventional PIMs proposed by the Consumer Advocate, by the HECO Companies, and by other parties should be refined and implemented in this Docket?

(b) What are the appropriate steps, processes, and timing for determining measures to improve the efficiency and effectiveness of the general rate case filing and review process?

(c) What are the appropriate steps, processes, and timing to further consider the merits of the proposed changes to the

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<sup>11</sup>Schedule B Order at 5-7.

[energy cost adjustment clause" ("ECAC")]  
identified in this proceeding?<sup>12</sup>

The Schedule B Order also directed the HECO Companies and Consumer Advocate to develop standards and guidelines regarding recovery above the RAM Cap:

9. The Companies and Consumer Advocate shall develop standards and guidelines for eligibility of projects and determination of the amount of eligible cost recovery above the RAM Cap or outside of the RAM mechanism through the REIP or other adjustment mechanism and shall present these to the Commission for approval on or before June 15, 2015.<sup>13</sup>

The three specific issues and the development of standards and guidelines identified for further briefing by the Parties in the Schedule B Order are the subjects of the instant Order, discussed individually below.

On June 1, 2015, initial briefs, addressing the three specific issues that were referred to the Parties in the Schedule B Order, were filed by the HECO Companies, the Consumer Advocate, COH, and jointly by Blue Planet and HSEA. On June 15, 2015, corresponding reply briefs were filed by the same Parties.

On June 15, 2015, the HECO Companies and Consumer Advocate filed a "Joint Proposed Modified

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<sup>12</sup>Schedule B Order No. 32735 at 114.

<sup>13</sup>Schedule B Order No. 32735 at 114.

REIP Framework/Standards and Guidelines" ("Joint Proposed REIP Framework"), in accordance with the Schedule B Order. The HECO Companies also independently filed "Hawaiian Electric Companies Standards and Guidelines for Eligibility of Projects for Cost Recovery through the RAM above the RAM CAP" ("HECO Proposed Standards and Guidelines"). On June 30, 2015, the Consumer Advocate filed comments regarding the HECO Proposed Standards and Guidelines, and COH filed comments on the Joint Proposed REIP Framework.

#### IV.

##### DISCUSSION

There are four subject areas discussed individually below, which correspond to the three specific issues, and the development of standards and guidelines, identified for further briefing by the Parties in the Schedule B Order:

- A. Conventional Performance Incentive Mechanisms;
- B. Changes to Improve the Efficiency and Effectiveness of the General Rate Case and Review Process;
- C. Changes to the Energy Cost Adjustment Mechanism; and
- D. Standards and Guidelines for Revenue Recovery Above or Outside the RAM Cap.

For each subject area, the commission provides (1) substantive background; (2) positions of the Parties; and (3) findings and conclusions.

A.

Conventional Performance Incentive Mechanisms

1.

Background

The first general issue in this docket, identified in Order No. 31635, focused on possible performance incentive mechanisms:

GENERAL ISSUE: WHETHER PERFORMANCE INCENTIVES SHOULD BE INCORPORATED INTO THE RBA, RAM OR OTHER UTILITY RATE DESIGNS OR RATEMAKING PROCEDURES.

The specific issues to be addressed with respect to this general issue are as follows:

1. NATURE AND FORM OF PERFORMANCE INCENTIVES:

...

2. INCENTIVES TO CONTROL COSTS:

...

3. INCENTIVES TO MAKE NECESSARY AND/OR APPROPRIATE CHANGES TO UTILITY STRATEGIC PLANS AND ACTION PLANS:

...



4.. FAIR ALLOCATION OF RISK AND  
ASSOCIATED COSTS:

...

5. LEGISLATIVE GUIDANCE:

...

In their Initial SOPs and Reply SOPs, filed prior to the Schedule B Order, the Parties offered a variety of PBR<sup>14</sup> framework proposals and PIMS. Summarizing the proposals offered by the Parties, the commission recognized several pertinent distinctions between PBR and PIMS in the Schedule B Order:

1. At the outset, the commission observes that there is a distinction between "PBR framework" proposals and "stand-alone" PIMS. As discussed above, the parties have, to a greater or lesser degree, offered proposals with respect to both.

2. The proposed PBR frameworks, if implemented, would constitute a wholesale change in the regulatory procedures and cost control incentives associated with the traditional ratemaking process by, among other things, allowing utilities to profit from realized cost efficiencies and establishing financial rewards or penalties based on utility performance according to specific incentive metrics. ...

...

5. Stand-alone PIMS provide financial rewards or penalties for utility performance according to specific metrics but without

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<sup>14</sup>The commission includes the HECO Companies' "Incentive Based Ratemaking" ("IBR") framework proposals within the scope of the meaning of the term "PBR" herein.

necessarily adopting a substantial change in other ratemaking procedures. ... <sup>15</sup>

The commission also drew a distinction regarding the nature of the objectives of the PIMs proposed by the Parties:

6. There is also a distinction between "conventional" PIMs designed to ensure maintained quality of services to customers, and "energy policy" PIMs designed to promote attainment of energy policy objectives. Most PBR frameworks incorporate conventional PIMs to ensure that the cost control incentives of the PBR framework do not encourage the utility to obtain cost reductions by reducing the quality of services provided to customers. Conventional PIMs reward or penalize a utility based on performance according to one or more conventional service quality metrics.<sup>16</sup>

For several reasons cited in the Schedule B Order, the commission decided not to implement a PBR framework or stand-alone energy policy PIMs in this docket, but did recognize the merit of conventional PIMs and the possibility of implementing PBR and/or energy policy PIMs in the future.<sup>17</sup>

Thus, the Schedule B Order directed the Parties to submit briefs and reply briefs on several issues, including:

(a) Whether and, if so, how, the conventional PIMs proposed by the Consumer Advocate, by the HECO Companies, and by other parties should be refined and implemented in this Docket?

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<sup>15</sup>Schedule B Order at 37-39 (footnote omitted).

<sup>16</sup>Schedule B Order at 40.

<sup>17</sup>Schedule B Order at 41-44.

Positions of the Parties

Several of the Parties stated their positions regarding conventional PIMs in the Initial SOPs and Reply SOPs filed prior to the Schedule B Order. The Parties' final positions regarding implementation of conventional PIMs, in response to the issues identified in the Schedule B Order, are documented in each Party's Initial Brief ("IB") and a Reply Brief ("RB")<sup>18</sup>, with the exception of HREA.<sup>19</sup>

Consumer Advocate: The Consumer Advocate supports implementation of conventional PIMs in this docket.

The Consumer Advocate continues to believe that PIMs are a flexible tool that can be implemented and modified gradually over time, as necessary and appropriate, to ensure that the utilities are being provided with a balanced set of incentives to operate its systems efficiently and cost-effectively in Hawaii and to meet customer needs and expectations.<sup>20</sup>

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<sup>18</sup>The commission notes that some Parties titled their IB an "Opening Brief." One party titled its IB "Reply Statement of Position" and its RB "Initial Brief." Throughout this Order, the commission refers to the briefs as "IB" or "RB" according to the filing sequence and filing dates set forth in the Schedule of Proceedings in this docket, notwithstanding any exceptional filing titles.

<sup>19</sup>HREA did not file an IB or RB in response to the Schedule B Order.

<sup>20</sup>Consumer Advocate RB at 4.

The Consumer Advocate supports the implementation of PIMs that guard against service quality degradation in conjunction with the recent modifications to the RAM mechanism that strengthen the HECO Companies' cost control incentives.<sup>21</sup>

The Consumer Advocate argues that "conventional PIMs could serve as an incremental first step that transitions Hawaii towards a more incentive-based regulatory structure in the future."<sup>22</sup>

The Consumer Advocate proposed several stand-alone PIMs in its Initial SOP and Reply SOP, prior to the Schedule B Order, including description of and arguments supporting the objectives, specification, quantification, and implementation of its proposed PIMs.<sup>23</sup> In its IB and RB, the Consumer Advocate supported the implementation of a subset of the PIMs proposed in its Initial SOP and Reply SOP, limited to the conventional PIMs specified in the Schedule B Order and identified the PIMs that "could be readily implemented."<sup>24</sup>

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<sup>21</sup>Consumer Advocate IB at 2.

<sup>22</sup>Consumer Advocate RB at 5.

<sup>23</sup>Consumer Advocate Initial SOP at 5-27; and Consumer Advocate Reply SOP at 8-34. The Consumer Advocate initially proposed seven PIMs in three categories: customer costs, customer service, and reliability.

<sup>24</sup>Consumer Advocate IB at 2-6.

The Consumer Advocate ultimately proposed and supported four conventional PIMs, including two PIMs to address customer service and two PIMs to address reliability:

1. Call Center Performance PIM. The Consumer Advocate supports implementation of a call center performance PIM.

The Consumer Advocate recommends that a PIM associated with call center performance should be established within this docket. The Consumer Advocate proposed a PIM to track call center performance, defined as the percentage of calls answered within 30 seconds. Under the Consumer Advocate's proposal, the denominator would include calls blocked at switch but exclude dropped calls.

Further refinement of the metric definition would be required in order to ensure that it is clearly defined and capable of being accurately measured. Such refinement could be accomplished through a review of the HECO Companies' phone system and tracking capabilities, as well as a review of prior performance tracking practices to ensure that historical data can serve as the basis for setting a target. The Consumer Advocate originally proposed to set a target based on the average of Q2 2013 through Q1 2014 data but this could be extended to include the latest available data.

Under the Consumer Advocate's proposal, a penalty or reward would initiate beyond a deadband of one standard deviation. The penalty or reward would thereafter increase to the maximum at two standard deviations, with a maximum reward or penalty equivalent to +/-10 bps.<sup>25</sup>

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<sup>25</sup>Consumer Advocate IB at 3-4 (footnotes omitted, citing to Consumer Advocate's Initial SOP at 21-24 and Reply SOP

2. Formal Customer Complaints PIM. As the

Consumer Advocate describes:

The Consumer Advocate's proposed metric for this PIM is the annual average rate of formal complaints to [the] Commission per 10,000 customers, with a target set at the average of 2004-2013, and a penalty or reward applying beyond a deadband of one standard deviation, and the penalty or reward calculated using a quadratic formula:

$$\begin{aligned} & (\text{Actual reward or penalty}) = \\ & (\text{Maximum reward or penalty}) \times (1/4) \times \\ & [(\text{performance} - \text{target})/\sigma]^2 \end{aligned}$$

The Consumer Advocate has proposed that the maximum reward or penalty be set to the equivalent of +/-10 bps.<sup>26</sup>

3. System Average Interruption Duration Index

("SAIDI") PIM and System Average Interruption Frequency Index

("SAIFI") PIM.

The metric for SAIDI is generally defined as the interruption duration time multiplied by number of interrupted customers divided by the total number of customers, while the definition of SAIFI is generally defined as the number of customer interruptions divided by the total number of customers served. In general, the Consumer Advocate recommends that the precise definition of a sustained interruption be consistent with IEEE standards (i.e., more than 5 minutes), and that major events be excluded. Further refinement of these metrics may be required to ensure that,

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at 33-34). The term "bps" refers to "basis points" as further explained below.

<sup>26</sup>Consumer Advocate IB at 4-5. The "σ" sigma symbol in the formula represents the standard deviation of the historical metric data (see Consumer Advocate Reply SOP at 33).

to the extent reasonable, the definitions are consistent with historical data and reporting.

The Consumer Advocate has proposed that a target be set as the average of the previous five years until the baseline reliability study is conducted. In addition, the Consumer Advocate proposed that these PIMs be regarded as "penalty only," with a maximum penalty equivalent to 25 bps. Under the Consumer Advocate's proposal, the penalty would not occur within a deadband of one standard deviation, but beyond the deadband, the penalty could be applied using a quadratic formula. The penalty should also account for multiple years of poor performance.<sup>27</sup>

The Consumer Advocate also supports implementation of an "Orders and Appointments" PIM,<sup>28</sup> but notes that additional data collection may be required prior to implementation.<sup>29</sup> The Consumer Advocate did not include this PIM in its quantification of financial impacts of its proposed PIMs.

The PIMs proposed by the Consumer Advocate would apply any rewards or penalties as a kilowatt-hour energy rate adjustment, becoming effective at the same time as the annual decoupling adjustments are made,<sup>30</sup> resulting in a reward or penalty with a

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<sup>27</sup>Consumer Advocate IB at 5-6.

<sup>28</sup>Consumer Advocate Initial SOP at 25 and Consumer Advocate Reply SOP at 18-19.

<sup>29</sup>Consumer Advocate IB at 6.

<sup>30</sup>Consumer Advocate Initial SOP at 27 and Consumer Advocate Reply SOP at 32.

duration of one year.<sup>31</sup> The Consumer Advocate contends that further consideration should focus on resolving the fairness of applying adjustment rewards or penalties to kilowatt-hour energy charges that can be entirely avoided by some customers.<sup>32</sup>

Further details regarding the position of the Consumer Advocate regarding implementation of the proposed PIMs is provided in the discussion of findings and conclusions below.

The HECO Companies: The HECO Companies identified several service quality metrics in their Reply SOP that they proposed as "Targeted Performance Incentives" ("TPI") in conjunction with implementation of a PBR framework.<sup>33</sup> The TPI identified in the HECO Companies Reply SOP are the basis for the PIMs proposed in the Companies' IB and RB.

The HECO Companies propose and support the implementation of four conventional stand-alone PIMs. The Companies' position is summarized succinctly in their IB:

As recognized by the Commission in Order No. 32735 conventional PIMs can be effective to ensure adequate service quality in conjunction with effective incentives to utilities to reduce costs. The Companies have proposed conventional PIMs that focus on

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<sup>31</sup>Consumer Advocate Reply SOP at 32.

<sup>32</sup>Consumer Advocate Initial SOP at 27, n. 24.

<sup>33</sup>HECO Companies Reply SOP at 5 and HECO Companies Reply SOP Exhibit F at 8-12. The HECO Companies refer to their proposed PBR framework alternatives as "Incentive Based Regulation" or "IBR."



reliability and customer service which are areas that can be impacted when utilities manage their operations and maintenance ("O&M") costs.<sup>34</sup>

The HECO Companies support four PIMs, including: a SAIDI PIM and a SAIFI PIM to address reliability performance; and a Transaction Satisfaction PIM and a Call Center Performance PIM to address customer service performance.<sup>35</sup>

The HECO Companies maintain that their proposed PIMs are "fully flushed out" and ready to be implemented, including identification of measures, targets and incentive structure; and that the proposed PIMs are administrable, objective, measureable, and focus on areas of performance within the control of the Companies.<sup>36</sup>

The HECO Companies maintain that the four proposed PIMs represent a reasonable number of PIMs as a starting point, that "it is sensible to adopt fewer, rather than many PIMs" at the onset, and that PIMs can be "expanded and revised based on experience."<sup>37</sup>

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<sup>34</sup>HECO Companies IB at 3.

<sup>35</sup>HECO Companies IB at 3.

<sup>36</sup>HECO Companies IB at 3-4.

<sup>37</sup>HECO Companies IB at 4.

The PIMs that the HECO Companies ultimately propose are identified in their IB, with reference to details and supporting arguments presented in the HECO Companies' Reply SOP.<sup>38</sup> The Companies provide a summary exhibit from the Reply SOP, showing the proposed targets, deadbands, and maximum penalties/rewards for the proposed conventional PIMs, as "Exhibit A" attached to their IB.<sup>39</sup>

The four PIMs proposed by the HECO Companies are identified in the Companies' Reply SOP and IB as follows:

- SAIDI and SAIFI normalized for T&D events, separately reported on an annual basis for Hawaiian Electric, Hawai'i Electric Light and Maui Electric;
- Transaction Satisfaction as expressed in the results of surveys of customers who had recent transactions with the Companies, separately reported on an annual basis for Hawai'ian Electric, Hawai'i Electric Light and Maui Electric; and,
- Service Level (i.e., percentage of calls answered within 30 seconds), reported annually but which the Companies track on a consolidated basis.<sup>40</sup>

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<sup>38</sup>HECO Companies IB at 6: "The Companies presented the targets, deadbands, maximum penalty/rewards and the formulas for the TPI in the Companies' Reply SOP, Exhibit F pages 59 and 66."

<sup>39</sup>HECO Companies IB at 6, identifying the source of their IB Exhibit A as page 66 of the Companies' Reply SOP, Exhibit F.

<sup>40</sup>HECO Companies Reply SOP Exhibit F at 37-38.

The Companies propose to set the maximum revenue exposure for the sum of all PIMs as a specific dollar amount equal to "roughly 1.5% or 2.0% of estimated T&D cost of service revenue requirements" with a 70% share of total revenue exposure applied, split equally, to the SAIDI and SAIFI PIMs, and 30% of the total revenue exposure applied, split equally, to the remaining customer service PIMs.<sup>41</sup>

Further details regarding the position of the HECO Companies regarding implementation of the proposed PIMs is provided in the discussion of findings and conclusions below.

COH: COH filed an IB and RB that address whether conventional PIMs should be implemented. COH maintains that:

as an increasing number of choices become available to Hawaiian consumers, the metric that is ultimately the most important is whether consumers prefer electricity service offered by the HECO Companies or by alternative providers. With increasing availability of market-based options[,] Consumers will make their own calculations of the relative value and costs for each of these options, and any PIMs decided in this or other dockets may - or may not - fully represent, or even have any overlap, with actual consumer interests. PIMs under review may, at best, provide only indirect and incomplete indication of the factors consumers

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<sup>41</sup>HECO Companies IB at 9.

actually value, and of how much they value these factors.<sup>42</sup>

COH expresses concern that performance incentives can lead to "perverse incentives when only a subset of intended outcomes is emphasized."<sup>43</sup> COH suggests that the proposed metrics related to customer complaints, call center performance and orders and appointments "may reflect only indirectly and/or partially - if at all - on what customers actually value."<sup>44</sup>

COH expresses specific concerns regarding the SAIDI and SAIFI reliability PIMs proposed by the Consumer Advocate and the HECO Companies.

[E]stablishing "reliability" as a primary objective for maximization, rather than making reliability a "constraint" in the systems design optimization, creates powerful incentives for the utilities to propose ever-more expensive redundancy, power generation, storage, and T&D equity investments in the name of customer reliability, and equally powerful dis-incentives for the PUC and CA to question or deny such investments . . . .<sup>45</sup>

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<sup>42</sup>COH IB at 2. COH titled its IB, filed on June 1, 2015, as a "Reply Statement of Position." As noted above, throughout this Order, the commission refers to the IB and RB of each Party according to the sequence and date of filings according to the Schedule of Proceedings in this docket.

<sup>43</sup>COH IB at 3.

<sup>44</sup>COH IB at 4-5.

<sup>45</sup>COH RB at 2-3.

COH also questions limiting the reliability PIMs to address only T&D performance and excluding events pertaining to the Companies' system design and operation of generation components.<sup>46</sup>

**Blue Planet/HSEA:** Blue Planet and HSEA filed a joint IB and RB. Blue Planet/HSEA maintain that "[c]onventional PIMs should not be implemented at this time; if conventional PIMs are implemented, they should be penalty-only."<sup>47</sup> Blue Planet/HSEA maintain that, since a PBR framework will not be implemented in the near-term, "the predicate for conventional PIMs is missing."<sup>48</sup> Blue Planet/HSEA also argue that the reasons cited in the Schedule B Order for not implementing energy policy PIMs also apply to conventional PIMs.<sup>49</sup> Blue Planet/HSEA assert that conventional PIMs would "unduly focus the utilities on conventional metrics to the detriment of focusing on transformative changes."<sup>50</sup>

Blue Planet/HSEA recommend that, if Schedule A metrics or other evidence demonstrate an "incentive imbalance"

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<sup>46</sup>COH RB at 6.

<sup>47</sup>Blue Planet/HSEA Joint IB at 2.

<sup>48</sup>Blue Planet/HSEA Joint IB at 3.

<sup>49</sup>Blue Planet/HSEA Joint IB at 3.

<sup>50</sup>Blue Planet/HSEA Joint IB at 3.

affecting system reliability or conventional customer service, the implementation of conventional PIMs should be revisited.<sup>51</sup>

3.

Commission Findings and Conclusions

1. The potential merit of conventional PIMs was recognized in the Schedule B Order:

7. In this proceeding, several conventional PIMs were proposed by parties, either in conjunction with PBR proposals or as stand-alone PIMs. Examples of these include such metrics as SAIDI, SAIFI, and measures related [to] customer complaints and call center performance, as proposed by the Consumer Advocate and others.<sup>52</sup>

...

18. The commission does recognize the merit of conventional PIMs to ensure adequate service quality in conjunction with effective incentives to the utilities to reduce costs.

...<sup>53</sup>

2. The Schedule B Order in this docket implemented a RAM Cap that constrains annual RAM revenue adjustment increases between general rate cases to an amount equal or less than the rate of increase in inflation as measured by the GDPPI.

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<sup>51</sup>Blue Planet/HSEA Joint IB at 4.

<sup>52</sup>Schedule B Order at 40.

<sup>53</sup>Schedule B Order at 44.

3. The RAM Cap, by limiting revenue increases for an interim period between rate cases, serves to provide the HECO Companies with some incentive to control expenses to maintain or enhance earnings between rate cases. In this respect, the RAM Cap functions in a manner similar to the revenue cap component of a typical PBR framework.

4. Performance incentives, as conventionally used in most PBR frameworks, can serve to ensure that expense reductions between rate cases are not attained by, or do not result in, deterioration of service reliability or customer service quality.

5. The HECO Companies and the Consumer Advocate have both proposed and support several conventional PIMs that could encourage enhancement of service reliability and customer service metrics.

6. The HECO Companies provide substantial documentation and support for the merits of performance incentives generally, and for the specific conventional PIMs that they propose. The Companies document and discuss performance incentive principles, objectives, measures, mechanisms, and incentive structures.<sup>54</sup>

7. Blue Planet, HSEA, and COH oppose or do not support the conventional PIMs proposed by the Companies and

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<sup>54</sup>See generally, HECO Companies Reply SOP Exhibit F.

Consumer Advocate, citing reasons including arguments that the proposed PIMs: (a) do not target or incentivize the pertinent or appropriate aspects of utility performance; (b) are not necessary without implementation of a PBR framework; (c) could increase costs by promoting excessive redundancy; and (d) would distract from transformative initiatives.

8. The commission acknowledges some of the Parties' concerns that expressed opposition to adopting PIMs, and recognizes that the proposed PIMs have limitations and shortcomings, but finds that the proposed conventional PIMs do have a useful role in maintaining utility performance in the context of utility revenue constraints.

9. The commission agrees with the Consumer Advocate that implementation of stand-alone conventional PIMs at this time can provide experience in aid of any later PBR implementation.

... [T]he Consumer Advocate continues to believe that PIMs are a flexible tool that can be implemented and modified gradually over time, as necessary and appropriate, to ensure that the utilities are being provided with a balanced set of incentives to operate [their] systems efficiently and cost-effectively in Hawaii and to meet customer needs and expectations.<sup>55</sup>

10. As noted below, the commission intends to further explore the implementation of energy policy PIMs, cost control

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<sup>55</sup>Consumer Advocate RB at 4.



PIMs, and/or PBR in further proceedings, including the pending or next following general rate cases for each of the HECO Companies.

11. The commission agrees with the HECO Companies that it is prudent to start with a smaller, rather than an expansive, set of PIMs, and with conservative, rather than potentially excessive, magnitudes of financial incentives.

12. Despite recognized limitations and shortcomings, the commission generally finds and concludes that implementation of a set of conventional PIMs for each of the HECO Companies is reasonable and beneficial at this time. The merits and specifications of the specific PIMs to be implemented are addressed below.

a.

#### RELIABILITY PIMs

13. The HECO Companies and the Consumer Advocate agree that PIMs to address reliability should be implemented, and both propose SAIDI and SAIFI PIMs that are similar in principal respects. The HECO Companies and the Consumer Advocate conjunctively provide substantial evidentiary support and persuasive arguments for the implementation of these PIMs.

14. The commission notes that the HECO Companies' definitions of the SAIDI and SAIFI metrics are essentially identical to the definitions provided by the Consumer Advocate,

although there may be some differences in details regarding normalization of data and exclusions for major weather events and major outages.<sup>56</sup> As defined by the Consumer Advocate,

[t]he metric for SAIDI is generally defined as the interruption duration time multiplied by number of interrupted customers divided by the total number of customers, while the definition of SAIFI is generally defined as the number of customer interruptions divided by the total number of customers served.<sup>57</sup>

15. The Consumer Advocate recommends that the SAIDI and SAIFI PIM targets should be set as the average of the previous five years historical attainment until a baseline reliability study is conducted.<sup>58</sup>

16. The HECO Companies recommend that the SAIDI and SAIFI PIM targets should be based on seven years of available normalized historical "T&D" data (2007-2013). The Companies acknowledge that this seven-year historical period is less ideal than a ten-year period.<sup>59</sup>

17. For purposes of implementing the initial SAIDI and SAIFI PIMs in accordance with this Order, the commission finds that using the longer period of historical data recommended by the

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<sup>56</sup>See HECO Companies IB at 7-8; HECO Companies Reply SOP Exhibit F at 36; and Consumer Advocate IB at 5.

<sup>57</sup>Consumer Advocate IB at 5.

<sup>58</sup>Consumer Advocate Initial SOP at 25 and IB at 5.

<sup>59</sup>HECO Companies IB at 8-9.

HECO Companies, updated to also include the most recent available annual data, is most reasonable.

18. The commission finds and concludes that, subject to further findings regarding specific aspects of implementation below, a SAIDI PIM and a SAIFI PIM are reasonable and beneficial mechanisms for each of the HECO Companies.

b.

CUSTOMER SERVICE QUALITY PIMs

19. The HECO Companies and the Consumer Advocate disagree regarding which PIMs are appropriate to address customer service quality. The HECO Companies propose a Transaction Satisfaction PIM and a Service Level PIM. The Consumer Advocate proposes a Customer Complaints PIM and a Call Center Performance PIM, both of which it maintains could be "readily implemented." The Consumer Advocate also proposes an Orders and Appointments PIM that "may require additional data collection prior to implementation."

i.

Call Center Performance PIMs

20. The HECO Companies' proposed Service Level PIM and the Consumer Advocate's proposed Call Center Performance PIM are identical in principle but differ with respect to several details.

Both of these PIMs measure the performance of the utility call center in terms of the percentage of calls answered within thirty seconds. These two proposed PIMs differ in the basis for determination of the performance metrics and targets, in the determination of the magnitude of financial incentives, and in the formulas used to determine financial incentives based on realized performance.

21. The HECO Companies and the Consumer Advocate disagree regarding the scope of calls to the utility call centers that should be included or excluded from the denominator in determining the fraction of calls answered in thirty seconds or less.

Currently, the HECO Companies track and report the percentage of calls answered within 30 seconds "from the time a customer's call enters the queue or upon selection of the desired service from the Interactive Voice Response (IVR) menu,"<sup>60</sup> which does not include the time it takes a customer to navigate the IVR menu options. Separately, the HECO Companies track and report the calls blocked at the switch due to a trunks-busy condition. In addition, the HECO Companies track and report the percentage of calls abandoned following the customer's selection of an option to speak to an agent. Calls abandoned include the number of calls that were abandoned due to loss of cellular

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<sup>60</sup>Consumer Advocate Reply SOP at 26-27, quoting from the HECO Companies' Response to Consumer Advocate/HECO-IR-67 (footnote omitted).

signal, as well as calls terminated by the customer due to wait time too long.<sup>61</sup>

22. The HECO Companies maintain that calls blocked at the trunk switch and abandoned calls should be excluded from the denominator in determining the percentage of calls answered within thirty seconds. The HECO Companies maintain that calls blocked at the switch are beyond the Companies' control.

23. After the exchange of information requests and responses, the Consumer Advocate agreed that abandoned or "dropped" calls should be excluded from the metric denominator, but maintains that calls blocked at the switch should be included.

24. For purposes of initial implementation of conventional PIMs in this proceeding, the commission finds that calls blocked at the switch due to trunk-busy conditions are not completely within the control of the utility, and that it is reasonable to exclude both blocked and abandoned calls from the denominator in determining a call center performance PIM.

25. The HECO Companies and Consumer Advocate also disagree regarding the determination of the performance target levels. Neither the HECO Companies nor the Consumer Advocate maintain that a long-term record of historical performance should

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<sup>61</sup>Consumer Advocate Reply SOP at 26-27.

be used to determine the performance targets or deadbands for implementing a PIM addressing call center performance.

26. The HECO Companies acknowledge that call center performance for the Companies "has been relatively low,"<sup>62</sup> but that the Companies "are actively addressing this problem by upgrading their information systems and customer interfaces."<sup>63</sup>

27. The HECO Companies propose setting the performance target for the proposed Service Level PIM at answering 70% of calls received within thirty seconds. The Companies maintain that, since this level of performance is higher than recent performance, this represents a "stretch target."<sup>64</sup>

28. The Consumer Advocate recommends using the "most recent data available" to set the initial target levels of performance for the call center performance PIM, "which would result in a target of 70.5% of calls received answered within thirty seconds."<sup>65</sup> The Consumer Advocate states that increasing the target to 75% would be reasonable to provide a "stretch" goal to demonstrate improvement in service quality over time.<sup>66</sup>

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<sup>62</sup>HECO Companies Reply SOP Exhibit F at 39.

<sup>63</sup>HECO Companies Reply SOP Exhibit F at 39.

<sup>64</sup>HECO Companies Reply SOP Exhibit F at 39.

<sup>65</sup>Consumer Advocate RB at 5.

<sup>66</sup>Consumer Advocate RB at 5.

29. The Consumer Advocate recommends setting a 2 - 3 percentage point deadband range around the performance target. The HECO Companies recommend a 2.5 percentage point deadband range.

30. The metrics reported by the HECO Companies on each Companies' web site, in accordance with the commission's orders on Schedule A issues in this docket, include a Service Level metric indicating the number of calls answered for each company, showing two years of historical quarterly data and ten years of annual data for each Company.<sup>67</sup> The commission notes that, as indicated by the HECO Companies, call center performance "ha[d] been relatively low" prior to 2014, with performance ranging from 29% to 69% for HECO, 14% to 70% for MECO and 42% to 66% for HELCO, on an annual basis. In the most recent two years reported, however, performance has substantially improved. For the last two years, reported on a quarterly basis, with the exception of one Company reporting performance of 68% for one quarter, all of the Companies reported performance higher than 74% in all quarters, and the Companies reported performance of 86% or higher in half of the reported quarters.

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<sup>67</sup>See Decision and Order No. 31908, filed February 7, 2014, at 74-78; and Order No. 32701. Data are provided for each Company on a quarterly basis from 2014 Q4 through 2016 Q3, and on an annual basis from 2006 through 2015.

31. Thus, in the years prior to 2014, the Companies' performance was persistently and substantially lower than the performance targets proposed by the HECO Companies and Consumer Advocate on an annual basis. In the period starting in 2014, however, performance was substantially higher than the proposed targets, with no Company in any quarter performing below the lowest proposed deadband lower limit, and performance in excess of the highest proposed deadband upper limit in a predominant number of quarters.

32. Thus, the commission does not agree that a performance target for a service level/call center performance PIM should be set at the levels specifically proposed and identified by the HECO Companies or the Consumer Advocate.

33. However, the commission agrees with the Consumer Advocate that the performance target for a service level/call center performance PIM should be set using the most recent data,<sup>68</sup> especially given the observed pattern of performance for the HECO Companies and a record of relatively poor performance prior to 2014. The Consumer Advocate proposes setting performance targets based on as little as four quarters of data in its

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<sup>68</sup>Consumer Advocate IB at 4 and Initial SOP at 24.



Initial SOP,<sup>69</sup> and suggests that the basis could be extended to include more recent available data.<sup>70</sup>

34. Therefore, the commission finds that for purposes of setting initial performance targets for the initial implementation of a service level/call center performance PIM: (a) the performance target should be set at the annual average performance for each Company for the most recent eight quarters of available data; (b) in light of the substantial volatility of the historical performance data, the deadbands should be set at 3% above and below the performance target, consistent with the maximum deadband recommended by the proposing parties; and (c) a linear formula should be used to determine financial incentives based on realized performance such that the maximum and minimum incentive levels are reached, symmetrically, at annual average attainment at approximately the maximum and minimum quarterly performance levels for any of the three Companies in the two-year historical period.

35. The commission finds and concludes that, subject to the findings and determinations above and further findings regarding specific aspects of implementation below, a service level/call center performance PIM is reasonable and beneficial for each of the HECO Companies to implement. The commission finds

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<sup>69</sup>Consumer Advocate Initial SOP at 24.

<sup>70</sup>Consumer Advocate IB at 4.

that titling this PIM a "Call Center Performance" PIM, as suggested by the Consumer Advocate, is specific, accurate, and appropriate for this PIM.

36. The major remaining differences between the PIMs proposed by the HECO Companies and the Consumer Advocate are: (a) whether the HECO Companies' Transaction Survey PIM should be implemented, (b) whether the Consumer Advocate's Customer Complaints PIM should be implemented, and (c) whether the Consumer Advocate's Orders and Appointments PIM should be implemented.

ii.

Transaction Satisfaction PIM

37. The HECO Companies propose a Transaction Satisfaction PIM based on surveys conducted with customers that have had recent interactions with the Companies regarding requests to change services, trouble reports, and bill inquiries.<sup>71</sup> Transaction satisfaction surveys are conducted by third parties and have been conducted for over ten years. Surveys ask customers to rate Company performance using a point scale of 0 to 100.<sup>72</sup>

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<sup>71</sup>HECO IB at 12.

<sup>72</sup>HECO IB at 12.

38. The HECO Companies maintain that the Transaction Satisfaction PIM "comes closest to providing an encompassing indicator of customer service scores because it reflects customer opinions concerning a range of more specific customer service measures."<sup>73</sup>

39. The HECO Companies note that over the ten-year period (2004-2013), the Companies' overall Transaction Survey scores have declined from about 90% in the 2004-2010 timeframe to less than 88% for the years 2011-2013. The Companies maintain that the drop in scores is a result of "several factors which influenced scoring by customers, some of which are completely unrelated to the specific transactions that were being assessed (e.g., rate increases)."<sup>74</sup> The Companies propose setting the target levels of performance for the Transaction Satisfaction PIM based on the most recent five years of survey data, asserting that the Companies would not likely be able to reach targets based on an average of ten years of historical data.<sup>75</sup>

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<sup>73</sup>HECO IB at 11.

<sup>74</sup>HECO Reply SOP Exhibit F at 24.

<sup>75</sup>HECO IB at 13 and HECO Reply SOP Exhibit F at 40. Although only five years of data would be used to set the target, ten years of data would be used to determine the standard deviations used in determining the deadband. HECO Reply SOP Exhibit F at 40.

40. The Consumer Advocate expresses concern that:

setting a target based upon the past five (5) years of data and a deadband based upon the past ten (10) years of data would result in unreasonably low targets for the Hawaiian Electric Companies to achieve and a deadband with an excessively large neutral zone.<sup>76</sup>

The Consumer Advocate recommends that a target based on ten years of historical data would be preferable but maintains that a transaction satisfaction PIM should not be implemented at this time.

[U]ntil there is greater certainty regarding whether any target and associated deadband would be reasonable given the data available from the Hawaiian Electric Companies at this time, the Consumer Advocate does not recommend setting a financial incentive for this PIM in this proceeding.<sup>77</sup>

41. The commission shares the Consumer Advocate's concern that the historical data for the proposed Transaction Satisfaction PIM are problematic and shares the HECO Companies' concern that the final three years of the historical period of data for the proposed Transaction Satisfaction PIM may be lower than the previous years of the historical period due to factors that are unrelated to transaction performance (e.g., dissatisfaction with rates).

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<sup>76</sup>Consumer Advocate RB at 8.

<sup>77</sup>Consumer Advocate RB at 8.

42. More generally, the commission is not convinced that a PIM based on survey results would be sufficiently immune from "gaming" or encouragement of activities narrowly focused on affecting survey results, rather than enhancing overall customer service quality.

43. The commission finds and concludes that the proposed Transaction Satisfaction PIM proposed by the HECO Companies has not been demonstrated to be a reasonable performance mechanism for the HECO Companies at this time.

iii.

Customer Complaints PIM

44. The Consumer Advocate proposes a Customer Complaints PIM based on the annual average rate of formal complaints filed with the commission. The performance target would be the average number of formal complaints per 10,000 customers over a ten-year period for each of the Companies. The Consumer Advocate proposes a deadband of one standard deviation above and below the performance target within which no financial incentive would be allotted.

45. The Consumer Advocate maintains that the number of customer complaints "enables a reasonable approximation of the degree to which the utility is providing reasonable customer

service, as typically only very poor performance results in a complaint to the commission."<sup>78</sup>

46. The HECO Companies oppose implementation of the proposed Customer Complaints PIM, maintaining that this PIM would not use objective data since judgement would have to be used to determine which customer complaints were within commission jurisdiction, which complaints pertained to matters over which the utility has control, and whether the Companies were at fault.<sup>79</sup>

47. The HECO Companies point out that information regarding customer complaints is currently reported on each Company's website as part of the "Schedule A metrics" required by the commission in this docket. Reported Schedule A metrics include the number of informal and formal complaints received from the commission and the Better Business Bureau, and "escalated senior leader complaints." Complaints are reported disaggregated by Company, source of complaint, and type of complaint.<sup>80</sup>

48. The commission notes that the number of total complaints reported quarterly in the Companies' Schedule A metrics is small and proportionately volatile, especially for HELCO and MECO. The total number of quarterly complaints reported for the

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<sup>78</sup>Consumer Advocate Initial SOP at 15.

<sup>79</sup>HECO Companies RB at 4.

<sup>80</sup>HECO Companies RB at 4.

combined Companies for the most recent eight quarters varies from a minimum of 10 to a maximum of 46. The total number of all complaints reported for HELCO for this period varies, on a quarterly basis, from a minimum of one to a maximum of six; and for MECO, varies from a minimum of zero to a maximum of three.

49. Of more specific concern is that only one complaint for the combined Companies for the two-year reporting period is identified by the Companies in the Schedule A metrics as a formal complaint, ostensibly subject to evaluation in the Consumer Advocate's proposed PIM.

50. The number of formal complaints has not been demonstrated in this proceeding to be sufficient in magnitude or stability as a meaningful statistic to serve as a basis for determining financial incentives for utility performance.

51. The commission also notes that the largest and often predominant number of quarterly complaints reported by the Companies in the Schedule A metrics are filed regarding power quality/reliability, which is an attribute addressed independently by the SAIDI and SAIFI metrics.

52. The commission finds and concludes that the Customer Complaints PIM proposed by the Consumer Advocate has not been demonstrated to be a reasonable mechanism for the HECO Companies to implement at this time.

Orders and Appointments PIM

53. The Consumer Advocate proposes an Orders and Appointments PIM but concedes that this PIM "may or may not be feasibly implemented in this docket."<sup>81</sup>

It is not clear at this point whether data regarding appointments met are available to set a target based on historical data.<sup>82</sup>

54. The HECO Companies oppose the Consumer Advocate's proposed Orders and Appointments PIM, asserting that some of what this PIM measures falls outside of the Companies' control, that the metrics used in the PIM are not properly normalized, and that the form and magnitude of the proposed penalties is overly punitive and not reasonable.

55. The commission finds and concludes that the Orders and Appointments PIM proposed by the Consumer Advocate cannot be feasibly implemented at this time.

c.

PIM IMPLEMENTATION PROVISIONS

56. The HECO Companies and the Consumer Advocate disagree regarding several details common to all of the proposed

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<sup>81</sup>Consumer Advocate IB at 6.

<sup>82</sup>Consumer Advocate IB at 6.



PIMs, including: the magnitude of performance incentives that would be allotted by the PIMs; the formulas used to determine the amount of performance incentives; whether penalties and rewards should be categorically symmetrical; how data are normalized and denominated; and how the performance targets are determined based on historical data. These differences are discussed below.

57. In making determinations regarding differences between specific aspects of the PIMs proposed by the HECO Companies and those proposed by the Consumer Advocate, the commission finds it prudent, in making this initial implementation of stand-alone conventional PIMs, to be guided by the general principles of simplicity and gradualism.

i.

Magnitude of Incentives and Penalties

58. Both the HECO Companies and the Consumer Advocate propose to determine the amount of financial incentives allotted by the PIMs based on a maximum financial incentive amount for each of the PIMs. The Companies and Consumer Advocate differ regarding the basis for determining the maximum incentive amounts and the ultimate recommended maximum incentive amounts.

59. The HECO Companies base the proposed maximum financial incentive amounts on recommendations by their

consultant, The Brattle Group ("Brattle").<sup>83</sup> Brattle recommends that the maximum amount of financial incentives for the combined PIMs should be based on a percentage of each Company's T&D revenue requirements. Brattle recommends that the combined PIMs should have a maximum penalty/reward "set at roughly 1.5% to 2.0% of estimated T&D cost of service revenue requirements."<sup>84</sup> Brattle calculates the maximum amount of penalty/rewards ultimately proposed by the HECO Companies, as an example, at 1.7% of T&D revenue requirements.

For example, setting maximum revenue exposure equal to roughly 1.7% of estimated T&D cost of service revenue requirements would translate into roughly \$5 million per year for Hawaiian Electric, \$1.4 million per year for Hawai'i Electric Light and \$1 million for Maui Electric, for a total of, say, \$7.4 million per year for the Companies.<sup>85</sup>

60. Based on recommendations by Brattle, the HECO Companies allocate the maximum amount of penalty/reward to the individual reliability and customer service PIMs.

We also recommend that the Commission consider setting the maximum penalty/reward for reliability at 70% of the total revenue exposure, evenly split with 35% assigned to

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<sup>83</sup>HECO Companies Reply SOP Exhibit F.

<sup>84</sup>HECO Companies Reply SOP Exhibit F at 41.

<sup>85</sup>HECO Companies Reply SOP Exhibit F at 41. The derivation of each Companies' T&D revenue requirements used for this determination is shown in Attachment III to Exhibit F (HECO Companies Reply SOP Exhibit F at 54).

SAIDI and 35% to SAIFI. The remaining 30% of the maximum penalty/reward should be allocated to the TPIs associated with customer service.<sup>86</sup>

61. As proposed by the Companies, the maximum revenue impact for each of the SAIDI and SAIFI PIMs would thus be \$1.75 million for HECO, \$490,000 for HELCO, and \$350,000 for MECO.<sup>87</sup> The maximum revenue impact for each of the Transaction Satisfaction and Service Level PIMs would be \$750,000 for HECO, \$210,000 for HELCO, and \$150,000 for MECO.<sup>88</sup> The total proposed maximum amount of revenue impact for the combined Companies and combined PIMs would thus be \$7.4 million.

62. The Consumer Advocate quantifies the proposed magnitude of the incentives and penalties for each PIM in terms of a dollar amount determined based on "approximate basis points" associated with the Companies' authorized return on equity ("ROE"), although no change to each Company's authorized ROE would actually occur.<sup>89</sup>

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<sup>86</sup>HECO Companies Reply SOP Exhibit F at 41-42.

<sup>87</sup>HECO Companies IB at 9.

<sup>88</sup>HECO Companies IB at 14.

<sup>89</sup>Consumer Advocate Reply SOP at 32.

63. The maximum magnitudes of the rewards and penalties allowed in the PIMs proposed by the Consumer Advocate, in units of basis points on ROE, are as follows:

	Maximum Reward	Maximum Penalty
Call Center Performance:	+10	-10
Formal Customer Complaints	+10	-10
SAIDI	+0	-25
<u>SAIFI</u>	<u>+0</u>	<u>-25</u>
Total Possible	+20	-70

64. As proposed by the Consumer Advocate, the maximum revenue penalty for each of the SAIDI and SAIFI PIMs would be \$2,472,553 for HECO, \$685,936 for HELCO, and \$571,168 for MECO, with a maximum revenue reward of zero. The maximum revenue penalty and reward for each of the Customer Complaints and Call Center Performance PIMs would be \$989,021 for HECO, \$274,374 for HELCO, and \$228,467 for MECO.<sup>90</sup> Thus the total maximum amount of revenue reward for the combined Companies and combined PIMs would be \$3.0 million and the maximum penalty would be \$10.4 million.

65. The Consumer Advocate observes that, "[i]n theory, the magnitude of the financial penalties and rewards should consider both the marginal benefit and marginal cost of improving

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<sup>90</sup>Consumer Advocate Initial SOP, Exhibit B.

performance" but states that "[t]he Consumer Advocate is not aware of specific studies for Hawaii that calculate the marginal benefits and costs of improvements in the metrics identified."<sup>91</sup>

66. The Consumer Advocate provides arguments for utilizing some financial indicator as the basis for determining the amount of financial incentives for the PIMs, even if not tied directly to benefits and costs of implementing the PIMs.

For each of the incentives, the financial penalties or rewards should be tied to some financial indicator, e.g., revenues or net income, in order to put the magnitude into a meaningful context. This also provides consistency across the Companies and over time.<sup>92</sup>

67. The commission agrees with the Consumer Advocate that, ideally, the magnitude of financial incentives for PIMs should consider the marginal benefits and costs of performance target attainment, and acknowledges that specific studies for Hawaii that calculate the benefits and costs of performance improvements may not be currently available.

68. The commission also agrees with the Consumer Advocate that it is useful to express financial incentive quantification for PIMs in terms that equate to some appropriate financial indicator for each Company, in order to provide some

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<sup>91</sup>Consumer Advocate Initial SOP at 26.

<sup>92</sup>Consumer Advocate Initial SOP at 26.

meaningful context and to provide some consistency between Companies and continuity over time.

69. The methods of determining and expressing the maximum financial incentive amounts for the PIMs proposed by the HECO Companies (percentage of T&D revenue requirements) and the Consumer Advocate (basis points on earnings) would both provide some consistency between Companies and continuity over time.

70. The commission finds that expressing the basis for determining the amounts of financial incentives for the PIMs in terms of basis points on earnings provides a more direct and meaningful context for considering the appropriate magnitudes of the financial incentives than percentages of T&D revenue requirements. Whereas there does not appear to be any direct or obvious connection between appropriate financial incentive levels and T&D revenue requirements, there is a clear linkage between the size of financial incentives and Company earnings. Indeed, the mechanism by which financial incentives function is fundamentally directed at utility management attention to the Companies' bottom lines.

71. The commission finds that, for purposes of the initial implementation of conventional stand-alone PIMs in this proceeding, initial levels of maximum financial incentives for each PIM that fall between the amounts proposed by the

HECO Companies and the amounts proposed by the Consumer Advocate are reasonable.

72. Specifically, the initial maximum financial incentives for each PIM for each Company should be based on basis points on earnings for each Company as recommended by the Consumer Advocate except that, maximum incentives for the SAIDI and SAIFI reliability PIMs should each be based on twenty (20) basis points, and maximum incentives for the customer service PIMs should each be based on eight (8) basis points.<sup>93</sup> These amounts fall between what was proposed by the HECO Companies and the Consumer Advocate but are closer to the amounts proposed by the HECO Companies.<sup>94</sup>

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<sup>93</sup>The Consumer Advocate proposed using 25 basis points to determine the magnitude of each of the reliability PIMs and 10 points to determine each of the customer service PIMs. Based on the penalty maximum amounts indicated in Consumer Advocate Initial SOP Exhibit B, using 20 and 8 basis points for these PIMs respectively should result in maximum incentives of \$1.98 million, \$0.46 million, and \$0.55 million for each of the reliability PIMs for HECO, MECO, and HELCO, respectively; and \$0.79 million, \$0.18 million, and \$0.22 million for each of the customer service PIMs for HECO, MECO, and HELCO, respectively. These amounts are 80% of the amounts proposed by the Consumer Advocate but, in all instances, greater than the amounts proposed by the HECO Companies.

<sup>94</sup>The maximum incentive amounts proposed by the HECO Companies are \$1.75 million, \$0.35 million, and \$0.49 million for each of the reliability PIMs for HECO, MECO, and HELCO, respectively; and \$0.75 million, \$0.15 million, and \$0.21 million for each of the customer service PIMs for HECO, MECO, and HELCO, respectively. HECO Companies Reply SOP Exhibit F at 66, Attachment X.

73. Setting the maximum financial incentives for each PIM at the lower end of the amounts proposed by the HECO Companies and the Consumer Advocate, in conjunction with approval of a smaller set of PIMs than proposed by those parties, results in approval of lower maximum financial incentives for the overall set of PIMs than would result from either of the proposed methods of determining total PIM financial incentive amounts (i.e., proposed percentage of T&D expense, proposed basis points of earnings). The commission finds that, for the initial implementation of PIMs in this Order, the lower level of financial incentives is reasonable and appropriate. The commission intends to revisit the level of PIM financial incentives in the pending or subsequent general rate cases for each of the HECO Companies.

ii.

Symmetry of Rewards and Penalties for SAIDI and SAIFI

74. The Consumer Advocate maintains that the SAIDI and SAIFI reliability PIMs should not have symmetrical rewards and penalties, but that penalties should be applied for performance worse than the target (and deadband), with no rewards for performance exceeding the performance target and deadband.



The Consumer Advocate maintains that reliability is a core responsibility of the utility companies.<sup>95</sup>

As noted by the Consumer Advocate and other parties in this docket, symmetrical reliability incentives for the Hawaiian Electric Companies may not be justified, because reliability is a fundamental mandate for an electric utility operator. The Hawaiian Electric Companies should not be rewarded for providing excellent service reliability. Thus, the Consumer Advocate opposes positive incentives for reliability performance.<sup>96</sup>

75. The HECO Companies maintain that all the proposed PIMS should have symmetrical rewards and penalties, asserting that the Consumer Advocate's proposal to provide penalties without reward opportunities for the SAIDI and SAIFI reliability PIMS would be "overly punitive."<sup>97</sup>

76. As noted above, the RAM Cap, by limiting revenue increases for a fixed three-year interim period between general rate cases, serves to provide the HECO Companies with incentives to control expenses to maintain or enhance interim net earnings. As in a typical PBR framework, the primary incentive is provided by a revenue cap and fixed-period general rate case cycle which, together, encourage cost control. In this context, the proposed

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<sup>95</sup>Consumer Advocate Initial SOP at 25.

<sup>96</sup>Consumer Advocate RB at 7.

<sup>97</sup>HECO Companies RB at 3.

conventional PIMs serve primarily as "backstop" mechanisms to ensure that interim expense reductions are not attained by, and do not result in, deterioration of service reliability or customer service quality. The proposed PIMs may result in, but do not have the primary purpose of improving energy delivery reliability or customer service.

77. For purposes of initial implementation of the conventional stand-alone PIMs in this proceeding, and until the commission has further opportunity to review broader potential roles and contexts for performance incentives in subsequent proceedings, the commission finds that it is reasonable to implement the proposed SAIDI and SAIFI reliability PIMs with asymmetrical incentives as proposed by the Consumer Advocate.

78. Thus, the commission finds and concludes that the proposed SAIDI and SAIFI PIMs shall be implemented with penalties only for the initial implementation of PIMs in this Order.

iii.

Formulas for Determination of Rewards and Penalties

79. The HECO Companies and the Consumer Advocate propose different formulas to determine the amount of financial incentives to be allotted based on target and realized levels of performance.

80. Both proposing Parties' PIMs incorporate formulas that (a) express differences between target and realized levels of performance in terms of statistically determined "standard deviation" units based on historical data, and (b) incorporate a "deadband," extending one standard deviation above and one standard deviation below the target level of performance, within which no financial rewards or penalties are allotted.<sup>98</sup>

81. The major difference between the formulas in the PIMs proposed by the HECO Companies and the Consumer Advocate is whether a linear versus a quadratic formula, respectively, is used to determine the magnitude of incentives between the minimum incentive level at the edges of the deadband, and the maximum performance incentive level.

82. The PIMs proposed by the Consumer Advocate utilize quadratic formulas to determine the magnitude of rewards or penalties according to levels of realized attainment of metric targets.

For metrics utilizing a deadband (SAIDI, SAIFI, and customer complaints), the benchmark is based on average historical performance and

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<sup>98</sup>One exception is the service level/call center performance PIM. Both the HECO Companies and the Consumer Advocate propose expressing the deadband and formula for financial incentives in terms of percentage points difference from target rather than in terms of statistically-derived standard deviation units for this PIM.

the deviation from this benchmark would be normalized using the standard deviation (sigma, or "  $\sigma$  ") from the historical data. The formula would apply when performance was better or worse than one standard deviation from the benchmark, with maximum rewards or penalties applied at two standard deviations better or worse than the benchmark. (Performance in excess of two standard deviations better or worse than the benchmark would simply also receive the maximum reward or penalty.)

The deviation from the benchmark (ranging from 1 to 2 standard deviations) would be squared (resulting in a score of 1 to 4). The squared deviation then becomes a scaling factor for determining the reward or penalty, resulting in performance that is one standard deviation worse than the benchmark being assessed 1/4 of the maximum penalty, while performance that is two standard deviations worse than the benchmark being assessed the full maximum penalty. Metrics that are eligible for rewards would be calculated similarly.

The formula for applying the reward or penalty in the case of a deadband would be calculated as follows:

$$\begin{aligned} &(\text{Actual reward or penalty}) = \\ &(\text{Maximum reward or penalty}) \times (1/4) \times \\ &[(\text{performance} - \text{benchmark})/\sigma]^2 \end{aligned}$$

83. The HECO Companies' proposed PIMs would utilize a linear formula applied around a deadband, extending one standard deviation above and one standard deviation below an established performance target. Incentive rewards or penalties would

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<sup>99</sup>Consumer Advocate Reply SOP at 33-34.

increase, from zero at the upper and lower extreme ends of the deadband, by a linear function to the maximum incentive level at two standard deviations from the performance target.<sup>100</sup>

84. The HECO Companies provide a comparative graphical representation of these incentive formulas,<sup>101</sup> and note that the incentive formula proposed by the Consumer Advocate would result in a sudden "step function" jump in incentive levels at the extreme ends of the deadbands, whereas the HECO Companies' incentive formula would result in a more gradual change.<sup>102</sup>

85. The commission finds that the linear formulas used in the structure of the HECO Companies' proposed PIMs are simpler than the quadratic formulas proposed by the Consumer Advocate, do not result in sudden "jumps" or discontinuous steps in allotment of financial incentives, and do not otherwise differ extensively in ultimate effect from the formulas proposed by the Consumer Advocate.

86. The commission therefore finds and concludes that the HECO Companies' linear formulas are preferable for the initial implementation of the conventional PIMs.

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<sup>100</sup>HECO Companies IB at 10-11 and 14.

<sup>101</sup>HECO Reply SOP Exhibit F at 43.

<sup>102</sup>HECO Reply SOP Exhibit F at 42-44.

d.

PIM TARIFFS

87. Prior to implementation of the PIMs found to be reasonable and beneficial in this Order, it will be necessary to draft, review, and approve specific implementing tariff language.

88. The commission recognizes that there are differences between the HECO Companies, the Consumer Advocate, and other Parties regarding the definitions of performance metrics, specification and normalization of historical data, and other aspects of implementation of the PIMs that are not explicitly addressed or resolved in this Order. For the initial implementation of the PIMs approved in this Order, details regarding the implementation of each PIM shall be as provided in this Order and, to the extent not specified or resolved in this Order, shall be as proposed in the filings by the HECO Companies, unless otherwise ordered by the Commission.

89. The commission also recognizes that there are details regarding implementation of the PIMs which the HECO Companies, Consumer Advocate, and other parties have not addressed or which may become apparent in the expression of the PIMs in specific tariff language.

90. The commission therefore establishes several further procedural steps in this docket.

91. Within thirty (30) days of the date of this Order, the HECO Companies shall file a set of proposed tariffs to implement conventional stand-alone PIMs consistent with the provisions in this Order. The tariffs should be accompanied by exhibits that show the historical data utilized and the formulas and calculations used for the derivation of the initial performance target levels and deadbands. Examples should be provided showing the calculation of performance incentives under several hypothetical levels of future performance. The HECO Companies shall identify the disposition of any details regarding the implementation of the PIMs not explicitly addressed in this Order or the Companies' previous filings in this docket.

92. The HECO Companies shall endeavor to confer with the Consumer Advocate, and any other Party explicitly stating its interest in conferring on this matter, in order to efficiently address outstanding issues and details regarding the implementation of the PIMs not explicitly addressed in this Order, or the Companies' previous filings in this docket.

93. Within sixty (60) days of the date of this Order, Parties may file comments on the Companies' filing, including modifications to the proposed tariff language or alternative tariff language. Parties may file evidentiary support for proposals to resolve details or differences between the Parties' positions, however arguments inconsistent with the

provisions of this Order should not be submitted, and will not be considered by the commission.

94. The commission will issue an order resolving any matters related to proposed tariff language following the filing of the Parties' comments, above, and will direct the Companies to file compliant final tariffs to implement the conventional PIMs, as discussed herein, and in accordance with any further orders issued in this docket addressing the PIMs.

95. The commission does not intend to further consider PBR, energy policy PIMs, or cost control PIMs in this docket.

96. The commission does intend to further explore the implementation of energy policy PIMs, cost control PIMs, and/or PBR in further proceedings, including the pending and next general rate cases for each of the HECO Companies.

97. The commission further observes that the PIMs adopted in this Order address standard issues such as outage frequency and duration, and are generally consistent with those PIMs that have been adopted in other jurisdictions. However, the commission makes clear that this is only a first step in the process of moving towards more comprehensive PIMs and PBR. The commission notes that its future consideration of additional PIMs and PBR will focus on ways to incent the utilities to better achieve the State's renewable energy goals, provide customer choice, and control costs in order to provide



affordable energy services to customers. With respect to the latter, the commission is taking a first step by directing changes to the ECAC, as more fully discussed in Section IV.C. of this Order.

98. The commission intends to move expeditiously to further examine and ultimately adopt PIMs and ECAC amendments that provide appropriate incentives and new utility revenue opportunities, as necessary to ensure successful attainment of Hawaii's transition to high penetrations of renewable energy resources. In pending rate cases, HECO and HELCO have proposed PIMs and changes to the Companies' ECACs that would provide incentives to promote energy policy and cost control performance objectives.<sup>103</sup> In examining these proposals in the rate cases, the commission intends to further examine the PIMs, ECAC amendments and PBR concepts proposed by the Parties in this docket as well as a full spectrum of related additional concepts identified by the rate case parties, participants, and the commission. The commission will move forward and adopt

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<sup>103</sup>See In re Hawaii Elec. Light Co., Inc., Docket No. 2015-0170, "Application of Hawaii Electric Light Company, Inc., Verification, and Certificate of Service," filed on September 19, 2016, at 15-18 and 30 (proposed PIMs), and 18-19 and 30-31 (proposed changes to ECAC); and In re Hawaiian Elec. Co., Inc., Docket No. 2016-0328, "Application of Hawaiian Electric Company, Inc., Verification, and Certificate of Service," filed on December 16, 2016, at 17-20 and 30 (proposed PIMs), and 11, 20-21, and 30-31 (proposed changes to ECAC).

appropriate changes and mechanisms that are sufficiently supported in the rate case dockets. The commission will also shortly initiate a separate investigative docket to examine a full range of PIM and PBR options.

B.

CHANGES TO IMPROVE THE EFFICIENCY AND  
EFFECTIVENESS OF THE GENERAL RATE CASE AND REVIEW PROCESS

1.

Background

The third general issue identified in Order No. 31635, focused on possible changes to general ratemaking procedures:

GENERAL ISSUE: WHETHER CHANGES SHOULD BE MADE TO GENERAL RATEMAKING PROCEDURES TO IMPROVE EFFICIENCY AND/OR EFFECTIVENESS.

The specific issues to be addressed with respect to this general issue are as follows:

8. What changes could be made to existing general rate case filing and review procedures to improve the efficiency and effectiveness of regulatory oversight?

a. Could lessons learned from the standardization of the annual RBA and RAM filings be applied to general rate case filing procedures?

b. Should postage-stamp rates for all three HECO Companies with consolidated general rate case filings be considered to reduce the number of general rate cases and address inter-utility equity regarding RPS compliance?

c. Should any of the Commission's administrative rules be amended or revised to improve the rate case process?

d. What changes should be made to provide more timely recovery of costs and reduce regulatory lag?

9. ADMINISTRATIVE EFFICIENCY:

Whether and how the implementation and annual review of the decoupling mechanisms can be simplified?

a. What changes to the decoupling mechanisms, filing procedures or review procedures could be made to improve the efficiency, transparency and/or accuracy of the implementation and annual review of the decoupling mechanisms?<sup>104</sup>

The HECO Companies, Consumer Advocate, and COH addressed these specific issues in their Initial SOPs and Reply SOPs. The HECO Companies proposed an efficiency review process to further examine the proposed measures. The Consumer Advocate maintained that the record in this docket was sufficient to take action on implementing the proposed measures.

In the Schedule B Order, the commission found as follows:

117. The commission generally finds value in measures that can improve the efficiency and effectiveness of utility regulation. The commission notes some similarities and some substantive differences in the proposals made by the HECO Companies and Consumer Advocate in this proceeding.

118. The commission does not decide on the implementation of any specific measures in

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<sup>104</sup>Order No. 31365 at 20-21.

this Order, nor does the commission now decide on the merits of moving towards uniform multi-utility or multi-island rates. In the briefs and reply briefs required by this Order, the parties shall address the following issue:

What are the appropriate steps, processes, and timing for determining measures to improve the efficiency and effectiveness of the general rate case filing and review process?

Among other things, responses to this issue shall address the Schedule B Specific Issue #8 cited above, including all four subparts.<sup>105</sup>

2.

Positions of the Parties

The Consumer Advocate, HECO Companies, and COH provided responses addressing this specific issue in their IBs and RBs as requested in the Schedule B Order. In addition to addressing the steps, processes and timing for determining appropriate measures, the responding parties, as requested, reiterated and stated final positions regarding the specific measures proposed in their Initial SOPs and Reply SOPs.

The Consumer Advocate: The Consumer Advocate identifies and states positions regarding several possible measures to

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<sup>105</sup>Schedule B Order at 103-104.

improve the efficiency and effectiveness of general rate case review. These include:

- a. Recommending the application of the lessons learned from the standardization of the annual RBA and RAM filings to general rate case filing procedures, including utilization of standardized, spreadsheet-based templates for the calculation and presentation of revenue requirements. The Consumer Advocate states that this is a subject that "merits further discussion and dialogue between the HECO Companies and the Consumer Advocate."<sup>106</sup>
- b. Recommending a cautious approach to considering postage-stamp rates for the three HECO Companies, including analysis of possible indirect effects. The Consumer Advocate recommends that  
  
[t]o fully understand these complex issues and potential remedies, a regulatory proceeding limited to rate consolidation should be opened by the Commission to hear from affected stakeholders and to address the policy implications as well as a procedural path toward any offered outcome ...<sup>107</sup>
- c. Recommending against full consolidation of rate cases for the three HECO Companies, arguing that consolidation would not promote efficiency.<sup>108</sup>
- d. Recommending consolidated proceedings for certain "issues of common interest amongst the three companies," including: quantification of cost of capital; rate design policy; and determination of depreciation accrual rates.<sup>109</sup>

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<sup>106</sup>Consumer Advocate IB at 7-10.

<sup>107</sup>Consumer Advocate IB at 11-12.

<sup>108</sup>Consumer Advocate IB at 12-13.

<sup>109</sup>Consumer Advocate IB at 13-15.

- e. Recommending limiting filing of hard copy of voluminous documentation to only the Consumer Advocate with voluminous files provided to the commission and other parties in electronic format.<sup>110</sup>
- f. Recommending informal filing of discovery responses with only portions filed formally by parties as needed for the evidentiary record.<sup>111</sup>
- g. Recommending establishment of minimum filing requirements, with standardized exhibits, schedules and workpapers. The Consumer Advocate states that, if desired, the Consumer Advocate and the HECO Companies could jointly develop a standardized set of documents that would define the minimum documentation to be filed for a general rate case.<sup>112</sup>
- h. Recommending revisions to rate case procedural schedules to promote administrative efficiencies, including scheduling settlement negotiations prior to filing rate case testimony, and providing for "limited scope" settlements for some issues prior to evidentiary hearings.<sup>113</sup>
- i. Recommending removal of all fuel and purchased energy expenses from base rates with recovery of these expenses entirely through the ECAC.<sup>114</sup>

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<sup>110</sup>Consumer Advocate IB at 15-16.

<sup>111</sup>Consumer Advocate IB at 16.

<sup>112</sup>Consumer Advocate IB at 17.

<sup>113</sup>Consumer Advocate IB at 18-19.

<sup>114</sup>Consumer Advocate IB at 19. Unbundling fuel and purchased energy expenses from base rates is also discussed below regarding changes to the ECAC mechanism.

The Consumer Advocate also addresses and responds to a number of the proposals in the HECO Companies' Initial SOP and Reply SOP.

- j. The Consumer Advocate opposes the Companies' proposals to make changes in rate case filing timing to further reduce regulatory lag.<sup>115</sup>
- k. The Consumer Advocate opposes proposals to limit the number of information requests by the Consumer Advocate, but is "willing to engage in discussions" to further streamline the discovery process.<sup>116</sup>
- l. The Consumer Advocate opposes the Companies' proposal to establish "memorandum accounts" to minimize regulatory lag by providing for full-test-year revenue recovery.<sup>117</sup>

**The HECO Companies:** The HECO Companies propose an "Efficiency Review Process" to consider possible measures to improve the efficiency and effectiveness of general rate case review. The process would begin with the HECO Companies and Consumer Advocate exchanging written proposals that would fall into two categories: (a) proposals requiring action by the commission (e.g., changes to administrative rules) and (b) proposals not requiring action by the commission. The Companies and Consumer Advocate would participate in workshops

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<sup>115</sup>Consumer Advocate IB at 19-23.

<sup>116</sup>Consumer Advocate IB at 23-24.

<sup>117</sup>Consumer Advocate IB at 24-25.

to refine and resolve issues, with results memorialized by stipulation filed with the commission.<sup>118</sup>

The HECO Companies propose and/or support several specific measures to improve the efficiency and effectiveness of the general rate case process. These include:

- a. Standardizing general rate case filings. The Companies maintain that this measure can be implemented without action by the commission<sup>119</sup> and note that "some high-level conceptual discussions have already taken place."<sup>120</sup>
- b. Providing timely data to the Consumer Advocate in user-friendly format; improving direct linkages of data contained in electronic files for exhibits;<sup>121</sup> and meet with the Consumer Advocate prior to rate case filing or early in the rate case to determine discovery needs.<sup>122</sup>
- c. Cautious approach to postage-stamp rates for the three HECO Companies. The Companies note "difficult issues," with implementing postage stamp rates, including inter-utility subsidies, increased financing costs resulting from ineligibility for tax-exempt special purpose revenue bonds, and creation of "winners" and "losers."<sup>123</sup> The Companies note that there are alternatives to postage stamp

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<sup>118</sup>HECO Companies IB at 26-28.

<sup>119</sup>HECO Companies IB at 29-31.

<sup>120</sup>HECO Companies IB at 30-31, citing Tr. 292 (Mr. Kikuta).

<sup>121</sup>HECO Companies IB at 31.

<sup>122</sup>HECO Companies IB at 45.

<sup>123</sup>HECO Companies IB at 32-34.



rates that would provide means to address inter-company sharing of RPS attainment and associated costs, including adoption of a "consolidation mechanism" or consolidated rate case proceedings.<sup>124</sup> "Notwithstanding potential problems," the HECO Companies are willing to consider implementation of postage stamp rates in their proposed Efficiency Review Process.<sup>125</sup>

- d. Changes to timing of rate case filings and procedures. The HECO Companies propose changes to the commission's administrative rules to (a) allow earlier filing of rate cases in order to increase the possibility that revenue relief could commence at the start of a test year and (b) allow motions for intervention to be filed and decided earlier in the rate case process.<sup>126</sup>
- e. Establishing "memorandum accounts" to provide for recovery of ultimately approved rates for the full test year period.<sup>127</sup>
- f. Consolidation of rate cases that do not result in consolidated rates.<sup>128</sup>
- g. Consolidated proceedings for issues common to the three HECO Companies.<sup>129</sup>

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<sup>124</sup>HECO Companies IB at 33.

<sup>125</sup>HECO Companies IB at 34.

<sup>126</sup>HECO Companies IB at 34-38.

<sup>127</sup>HECO Companies IB at 38-40.

<sup>128</sup>HECO Companies IB at 38 and 40-41.

<sup>129</sup>HECO Companies IB at 38 and 41-42.

- h. Use of test year estimates based on historical recorded data adjusted for known and measurable changes.<sup>130</sup>
- i. Limit the number of information requests by the Consumer Advocate in conjunction with additional informal meetings and witness interviews.<sup>131</sup>

COH: COH recommends utilization of independent auditors to "expedite" rate case filings and "lead to a beneficially leveraged and more accurate decision-making paradigm."<sup>132</sup>

COH recommends simplifying the rate case process, with the possibility of more frequent rate cases and utilization of standardized filing formats.<sup>133</sup>

COH does not support postage-stamp rates and agrees with the HECO Companies and the Consumer Advocate that postage-stamp rates "should only be implemented with great caution and extensive examination."<sup>134</sup>

Blue Planet, HSEA: Blue Planet and HSEA do not state a position on measures to increase the efficiency and effectiveness of the general rate case process.

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<sup>130</sup>HECO Companies IB at 38-39 and 42-44.

<sup>131</sup>HECO Companies IB at 45.

<sup>132</sup>COH Initial SOP at 26, COH IB at 7-8, and COH RB at 6.

<sup>133</sup>COH IB at 7-8, and COH RB at 6.

<sup>134</sup>COH RB at 6-7.

Commission Findings and Conclusions

99. As stated in the Schedule B Order, the commission generally finds value in measures that can improve the efficiency and effectiveness of utility regulation.

100. The specific issue identified in the Schedule B Order for briefing by the Parties is: "What are the appropriate steps, processes and timing for determining measures to improve the efficiency and effectiveness of the general rate case filing and review process?"

101. As a matter of general principle and policy, the commission finds that cooperation between the HECO Companies and the Consumer Advocate to promote and improve the efficiency and effectiveness of regulatory proceedings is clearly desirable, potentially beneficial, and should be encouraged whenever possible.

102. The commission recognizes that, beyond encouraging the HECO Companies and Consumer Advocate to cooperate proactively, some mandatory methodical or procedural actions may be appropriate.

103. The commission will not, in this Order, establish or implement the Efficiency Review Process proposed by the HECO Companies, nor will the commission require specific

further related actions according to a procedural schedule in this or a separate dedicated proceeding.

104. As further discussed below, the commission may, however, require specific measures or procedures suggested in this proceeding to be further considered or implemented in the context of upcoming or pending general rate case proceedings.

105. The commission does intend to require separation and removal of all test year fuel expenses from base rates with recovery of these costs through an appropriately modified ECAC automatic rate adjustment clause (hereinafter, "energy cost adjustment mechanism"), in the pending and subsequent general rate cases for the HECO Companies.

106. Other specific measures or procedures suggested in this proceeding that may be further considered in the context of pending or subsequent general rate cases include:

- a. Commencement of work towards and implementation of further standardization of rate case filings and the development of standardized linked spreadsheet templates similar in function to those developed for annual implementation of the RBA and RAM tariff adjustments;
- b. Provisions limiting voluminous production of hard copy responses to information requests where appropriate;
- c. Limiting formal hard copy filing of discovery responses to those filings relied upon by parties in testimony (while maintaining availability of electronic copies of all responses to the commission and all parties);

- d. Providing for settlement discussions in the procedural schedules, where feasible and appropriate, prior to the filing of direct and/or rebuttal testimonies; and
- e. Commencement of work towards determination of minimum filing requirements for rate case applications.

107. As stated in the Schedule B Order, the commission acknowledges the efforts of the HECO Companies and the Consumer Advocate in working to implement pre-vetted standardized templates to facilitate efficient and effective review of the annual decoupling filings. The commission encourages the Companies and the Consumer Advocate to continue to cooperate and work towards further efficiencies, both in the annual decoupling submittal process and in general rate case procedures. Parties shall bring to the commission's attention any matters that need resolution to provide accurate filings and effective review.

108. As noted above, the HECO Companies and the Consumer Advocate present arguments and concerns regarding consolidation of the general rate cases for the three HECO Companies and/or establishing consolidated proceedings to consider certain issues common to the Companies. In light of the substantial concerns noted by the Parties, the commission will not take action to implement consolidation of the HECO Companies' rate case proceedings, in whole or in part, at this time. The commission may consider consolidation options in the future.

109. The HECO Companies, Consumer Advocate, and COH all note substantial concerns regarding the implementation of "postage stamp" rates for the three HECO Companies. The HECO Companies and the Consumer Advocate express willingness to further consider postage stamp rates but none of the Parties propose or support postage stamp rates.

110. The commission finds that it is not reasonable to establish postage stamp rates for the HECO Companies, or determine whether postage stamp rates should be established, given the substantial issues and concerns identified by the Parties in this proceeding. Therefore, the commission will not implement "postage stamp" rates for the three HECO Companies at this time.

111. The HECO Companies and Consumer Advocate have identified several measures that would or could require the commission to make changes to its administrative rules. These measures include changes to the allowed or required timing for filing of general rate cases, and filing applications for intervention in general rate cases. More generally, the HECO Companies have proposed several measures to reduce regulatory lag through changes in general rate case filing, accounting, and timing practices.

112. The Consumer Advocate opposes the changes that the HECO Companies proposed to reduce regulatory lag. As noted in the Schedule B Order, the Consumer Advocate alleges that regulatory

lag is not a problem for the HECO Companies because the Companies, "currently enjoy a rich portfolio of regulatory mechanisms to track and fully recover the majority of their incurred costs."<sup>135</sup> The Consumer Advocate also notes, however, that there is a perception in the "financial community" that regulatory lag is a problem in Hawaii, and that this stems from the extended time between interim and final orders, even though the dollar amounts at issue between these orders are often not significant. The Consumer Advocate suggests that stakeholders should investigate how to facilitate reduction of "regulatory lag" issues to allay investment community concerns.<sup>136</sup>

113. The commission notes that, to the extent that cooperation, standardization, minimum filing requirements, or other measures identified in this proceeding may result in more efficient and effective review or settlement of issues, this may reduce the amount of time to process general rate case applications, with possible associated reductions in institutional regulatory lag.

114. For the reasons above, the commission finds that it is not necessary or reasonable to implement the specific measures

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<sup>135</sup>Schedule B Order at 102, citing to Consumer Advocate Initial SOP at 79.

<sup>136</sup>Schedule B Order at 102-103, citing to Consumer Advocate Initial SOP at 79.

to reduce regulatory lag through changes in filing timing requirements, utilization of memorandum accounts, or provisions allowing use of historical data in test year estimates proposed in this proceeding.

115. The commission will not initiate rulemaking proceedings to make changes regarding the filing or timing of general rate case procedures at this time.

C.

CHANGES TO THE ENERGY COST ADJUSTMENT MECHANISM

1.

Background

The commission did not explicitly identify changes to the existing ECAC mechanisms for the HECO Companies as a general or specific issue to be addressed in this proceeding. Nevertheless, in addressing issues regarding incentives to provide cost control and measures to improve the efficiency and effectiveness of general rate case filing and review, several Parties provided proposals and responding comments regarding changes to the ECAC mechanisms.

The commission issued information request PUC-IR-3 following the evidentiary hearings in this proceeding:

Aside from proposals to provide limited or fractional [ECAC] recovery (such as those already in the record), are any mechanisms or



amendments to the ECAC mechanism feasible to appropriately allocate fuel price risk and provide incentives to the utility to minimize power production costs? Describe how any such possible mechanisms or amendments would be implemented and identify pertinent advantages and disadvantages.<sup>137</sup>

In the Schedule B Order in this docket the commission stated as follows:

120. The commission concurs with the Consumer Advocate that changes to the ECAC should be made with great care to avoid unintended consequences. The commission finds that some of the proposals made by the parties and noted above may have potential merit. The record in this proceeding, however, is not sufficient to support major changes to the ECAC mechanisms in this Order.

121. The commission intends to further investigate possible changes to the ECAC in this proceeding. In the briefs and reply briefs required in this D&O, the parties shall address the following question:

What are the appropriate steps, processes, and timing to further consider the merits of the proposed changes to the ECAC identified in this proceeding?<sup>138</sup>

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<sup>137</sup>See PUC-IR-3, attached to Order No. 32501 as Attachment A, filed on December 9, 2014.

<sup>138</sup>Schedule B Order at 112.

Positions of The Parties

As noted in the Schedule B Order, Blue Planet and HSEA presented proposals to make substantive changes to the ECAC mechanisms in their Initial and Reply SOPs.<sup>139</sup>

The HECO Companies also identified several possible changes to the ECAC mechanisms in response to PUC-IR-3, stating that improvements to the ECAC are possible to address changing circumstances:

Although the Companies are not aware of any ECAC-related PIMs that would be appropriate for Hawaii, there are ways to improve the current ECAC. As the Companies integrate more renewable energy onto their systems, the target heat rates for fuel types that were established in the last rate case may become misaligned with the current operating conditions of the Companies' generating limits. To keep the efficiency incentive properly aligned, target heat rates could be reset on an annual basis, instead of during a rate case - with a process that would provide the Consumer Advocate and the Commission ample time to review and approve the requested target heat rate changes. Other refinements could include establishing separate target heat rates for different types of generators that use the same fuel type, and the replacement of target heat rates with 100% pass-through of fuel costs for fuel types that are used intermittently or that are expected to be used in fixed quantity.<sup>140</sup>

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<sup>139</sup>Schedule B Order at 108-108; Blue Planet Reply SOP at 11-13; and HSEA Initial SOP at 17-18.

<sup>140</sup>HECO Response to PUC-IR-3 at 1.

In its response to PUC-IR-3, the Consumer Advocate did not propose changes to the ECAC mechanisms and advised that amendments to the ECAC mechanisms should be evaluated with great care to avoid unintended consequences.<sup>141</sup>

The Parties provide more specific and final positions regarding the appropriate steps, processes, and timing to further consider the merits of the proposed changes to the ECAC in their IBs and RBs filed in response to the Schedule B Order.

The Parties' positions differ regarding whether the commission should order changes to the ECAC mechanisms in this docket. Both the HECO Companies and the Consumer Advocate advise caution and recommend further proceedings dedicated to consideration of any changes to the ECAC mechanisms.<sup>142</sup> Blue Planet and HSEA maintain that the record in this docket is sufficient and assert that the commission should order changes to the ECAC in this docket. Blue Planet argues that changes are urgently needed, argues against any processes that would delay implementation, and recommends implementation of changes to the ECAC mechanisms in this docket.<sup>143</sup>

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<sup>141</sup>Consumer Advocate Response to PUC-IR-3 at 13.

<sup>142</sup>HECO Companies IB at 47; Consumer Advocate IB at 25-28 and 30-31.

<sup>143</sup>Blue Planet IB at 5.

**The Consumer Advocate:** The Consumer Advocate recommends a three-step process to consider changes to the ECAC mechanisms:

(a) Unbundling and removal of all fuel and purchased energy costs from base rates. The Consumer Advocate maintains that unbundling and separate recovery of fuel and purchased energy costs would: simplify general rate cases, ECAC administration, and RBA administration; provide better customer understanding of fuel and energy costs; and be useful in other proceedings where valuation of energy-only costs is relied upon.<sup>144</sup>

(b) Independent third-party management audit of fuel use and procurement practices. The Consumer Advocate recommends an independent audit of ECAC accounting, fuel management, and procurement practices, and possibly ECAC design review.<sup>145</sup>

(c) Dedicated investigative proceeding. The Consumer Advocate maintains that the record in the instant proceeding is not sufficiently developed to support immediate changes to the ECAC mechanisms or embedded heat rate incentive mechanisms. The Consumer Advocate recommends an investigative docket to explore whether and how the ECAC mechanisms should be changed<sup>146</sup>

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<sup>144</sup>Consumer Advocate IB at 28-29.

<sup>145</sup>Consumer Advocate IB at 29.

<sup>146</sup>Consumer Advocate IB at 30-31.

The HECO Companies: The HECO Companies identify four categories of changes to the ECAC mechanisms, asserting that some categories could be considered in the instant proceeding and some should only be considered in separate proceedings.<sup>147</sup>

(a) Category 1 changes would include measures to limit ECAC recovery to reduced or partial recovery, or measures to phase out the ECAC over time. HECO maintains that such measures would require hearings, should be implemented in the context of a general rate case, and would require consideration of adjustments in the utilities' approved cost of capital.<sup>148</sup>

(b) Category 2 changes would include elimination of the heat rate incentive mechanism currently embedded in the ECAC mechanisms. The Companies indicate a willingness to make some adjustments to its ECAC mechanisms in this category,<sup>149</sup> but assert that changes should only be made in the instant proceeding if further procedural steps are provided.<sup>150</sup>

(c) Category 3 changes would include "reporting and review concepts" such as those proposed by the HECO Companies in response to PUC-IR-3 or by the Consumer Advocate in response to

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<sup>147</sup>HECO Companies IB at 47.

<sup>148</sup>HECO Companies IB at 50-51 and 53.

<sup>149</sup>HECO Companies IB at 48-49 and 69-70.

<sup>150</sup>HECO Companies IB at 51.

PUC-IR-7. The HECO Companies include these changes within the scope of what should be considered in the instant proceeding if further procedural steps are provided.<sup>151</sup>

(d) Category 4 changes would include provisions to implement greenhouse gas reduction or fossil fuel intensity incentives in the ECAC mechanisms. The HECO Companies assert that these changes could be considered in the instant proceeding only if further procedural steps are provided.<sup>152</sup>

Blue Planet/HSEA: Blue Planet and HSEA filed a joint IB and RB. These parties describe and propose a process for further consideration of changes to the ECAC mechanism as follows:

- (a) a commission order identifying process scope and a procedural schedule;
- (b) a period for collaborative discovery and analysis;
- (c) initial briefs describing final proposals;
- (d) responding reply briefs; and
- (e) a deciding order by the commission.<sup>153</sup>

Blue Planet/HSEA assert that the need for changes to the ECAC mechanisms is urgent<sup>154</sup> and argue that the proposals by the

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<sup>151</sup>HECO Companies IB at 51.

<sup>152</sup>HECO Companies IB at 51-51.

<sup>153</sup>Blue Planet/HSEA Joint IB at 9-10.

<sup>154</sup>Blue Planet/HSEA Joint IB at 5-8.

HECO Companies and the Consumer Advocate could unnecessarily delay implementation.<sup>155</sup>

COH: COH does not make specific proposals for changes to the HECO Companies' ECAC mechanisms but agrees that such changes should only be made with great care and careful examination,<sup>156</sup> and agrees that additional proceedings, either as a continuation of the instant docket or a separate docket "seem sensible."<sup>157</sup>

COH identifies several concerns that it maintains should be considered regarding any changes to the ECAC mechanisms, including the balance of risks between utility ratepayers and shareholders, incentives to control costs and the appropriateness of objectives and incentives in the heat rate provisions of the ECAC mechanisms.<sup>158</sup>

### 3.

#### Findings and Conclusions

116. The scope of the commission's examination regarding this issue in this Order focuses on the specific question posed to the Parties by the Schedule B Order: "What are the appropriate

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<sup>155</sup>Blue Planet/HSEA Joint RB at 3-11.

<sup>156</sup>COH IB at 8.

<sup>157</sup>COH RB at 7-8.

<sup>158</sup>COH IB at 8-9.

steps, processes and timing to further consider the merits of the proposed changes to the ECAC identified in this proceeding?"

117. In its Schedule B Order, the commission did not make findings regarding the merits of the proposed changes to the ECAC mechanisms or the arguments offered regarding the proposed changes. The commission stated its intent to further investigate possible changes to the ECAC mechanisms in this proceeding.

118. There is general agreement by the Parties that the issues regarding the proposed changes to the ECAC are complex and require further examination and proceedings prior to implementation of changes.

119. As noted above, the Consumer Advocate and Blue Planet/HSEA put forth proposals for specific processes.

120. The HECO Companies identify several categories of changes to the ECAC mechanisms that they assert would require further procedural steps in this proceeding or would require examination in separate proceedings

121. The commission will not establish further procedural steps in this docket and will not, at this time, initiate a separate docket to consider changes to the HECO Companies' ECAC mechanisms.

122. However, the commission does intend to require modifications to the ECAC mechanisms that will provide clear and appropriate incentives for the Companies to diligently achieve



Hawaii's energy policy goals at the most affordable cost. The commission will consider ECAC amendments and related PIMs that: 1) establish incentives for exemplary performance by the Companies to reduce fossil fuel generation; 2) control operating expenses, and effectively manage capital expenditures and new power purchase obligations; and 3) provide for earnings opportunities from shared cost savings resulting from exemplary performance and services, in addition to or as an alternative to earnings limited to return on capital investments.<sup>159</sup>

123. The commission will take up the issues regarding changes to the ECAC mechanisms identified in this docket, including consideration of incentives to control fuel and purchased power costs, in each Company's pending or next general rate case, and/or any separate docket initiated by the commission to consider implementation of PBR or further stand-alone PIMs for the HECO Companies.

124. In the context of the pending or next rate case for each of the Companies, the commission will consider adoption of certain changes (such as those agreed to by HECO in this proceeding) to establish a process to reset ECAC heat rates and/or deadbands periodically (outside of a rate case) to account for

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<sup>159</sup>See 2013 Haw. Sess. Laws Act 37, §§ 1-4 at 63-65. Act 37 was later codified at HRS § 269-6(d).

changes in resource mix, commitment, and/or dispatch for effective and efficient incorporation of renewable generation, or as otherwise required to maintain just and reasonable rates.

125. As noted above, the commission intends to require separation and removal of all test year fuel expenses from base rates, with recovery of these costs through an appropriately modified energy cost adjustment mechanism, in the pending and subsequent general rate cases for the HECO Companies.

D.

STANDARDS AND GUIDELINES FOR  
REVENUE RECOVERY ABOVE OR OUTSIDE THE RAM CAP

1.

Background

The Schedule B Order in this docket, among other matters, ordered amendments to the RAM, including implementation of a RAM Cap for each of the Companies. In establishing a RAM Cap, the commission, among further specific details, provided as follows:

105. The RAM will be amended by implementing a limit or cap on cumulative, automatic annual RAM Revenue Adjustments. The amendment will be applied on an interim basis pending the outcome of the proceedings in Docket No. 2014-0183. At that time the Commission will determine any further actions regarding the RAM provisions.

106. The HECO Companies shall continue to file submittals in accordance with the existing RBA and RAM tariffs by March 31 of each year, except as amended in this Order. The RAM Revenue Adjustment to be applied to determine effective Target Revenues will be the lesser of (a) the RAM Revenue Adjustment determined according to existing tariffs and procedures or (b) a RAM Revenue Adjustment Cap ("RAM Cap") to be calculated as specified below.

107. The RAM Cap shall be based on the Target Revenues determined in accordance with the RBA and RAM tariffs as provided below ("Basis"), times the cumulative annually compounded increase(s) in GDPPI for intervening years, adjusted to include applicable revenue taxes. The Basis used in determining the RAM Cap shall be adjusted to exclude or otherwise appropriately account for adjustments for the recovery of revenues for previously explicitly stipulated and approved exceptional matters or other matters specifically ordered by the commission, which shall, in any event, be recovered fully without respect to any limitations resulting from application of the RAM Cap. [footnotes omitted]<sup>160</sup>

The Schedule B Order included a provision for the Companies to apply for recovery of revenues through the RAM above the RAM Cap, or outside of the RAM through other mechanisms, under certain circumstances, after explicit approval by the commission.<sup>161</sup>

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<sup>160</sup>Schedule B Order at 93-95. Further details regarding the determination of the "basis" and determination of the RAM Cap and RAM revenue adjustments are provided in the Schedule B Order.

<sup>161</sup>Schedule B Order at 97-98.

113. The Companies may apply to the Commission for approval of recovery of revenues for Major Projects through the RAM above the RAM cap or outside of the RAM through the REIP or other adjustment mechanism. Approval for such recovery will be made on a case by case basis. Any such application shall identify and support the specific means and extent of proposed cost recovery.

114. Eligibility for recovery above the RAM cap or by adjustment mechanism outside of the RAM will be restricted to revenues for projects that HECO, MECO, or HELCO demonstrate to be prudent and reasonable, to provide customer value, to enhance the affordability of energy services, and which are not explicitly or implicitly included in otherwise effective utility target revenues or other effective means of revenue recovery.

115. The Companies may use a programmatic approach to categorizing and consolidating related baseline projects for consideration as Major Projects. For example, multiple baseline projects that serve a related purpose or are part of a specific program may be consolidated as a Major Project for purposes of application and review.<sup>162</sup>

The Schedule B Order also directed the Consumer Advocate and the HECO Companies to develop standards and guidelines for eligibility of projects and determination of the amount of eligible recovery above the RAM Cap or outside the RAM mechanism through other recovery mechanisms. In conjunction with this task, the commission invited the Companies and CA to review the yet-unapproved proposed framework for REIP cost recovery.

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<sup>162</sup>Schedule B Order at 97-98.

116. The Companies and Consumer Advocate shall develop standards and guidelines for eligibility of projects and determination of the amount of eligible cost recovery above the RAM Cap or outside of the RAM mechanism through the REIP or other adjustment mechanism and present these to the commission for approval. With respect to this issue, the commission notes that the HECO Companies and the Consumer Advocate have submitted draft standards and guidelines regarding eligibility for projects for the REIP mechanism in Docket No. 2010-0139. To the extent relevant, those standards and guidelines may be included and revised in response to this directive.<sup>163</sup>

The commission further provided that "[n]otwithstanding this directive, the HECO Companies may file an application for approval of a Major Project at any time consistent with this Order."<sup>164</sup>

On June 15, 2015 the HECO Companies and Consumer Advocate filed a letter in this docket jointly submitting their "Joint Proposed REIP Framework".

Also on June 15, 2015, the HECO Companies separately filed their HECO Proposed Standards and Guidelines, which consisted of a letter with a description of and support for the Proposed Standards and Guidelines, and the Proposed Standards and Guidelines attached as Exhibit A.

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<sup>163</sup>Schedule B Order at 98.

<sup>164</sup>Schedule B Order at 114-115.

On June 30, 2015, the Consumer Advocate filed "Consumer Advocate Comments in Response to Hawaiian Electric Companies Proposed Standards and Guidelines for Cost Recovery through the RAM above the RAM CAP," ("Consumer Advocate June 30, 2015 Comments") in which the Consumer Advocate recommended approval of the Joint Proposed REIP Framework, but identified several concerns regarding the HECO Proposed Standards and Guidelines, and recommended that the commission not approve the HECO Proposed Standards and Guidelines.

Also on June 30, 2015, COH filed "County of Hawai'i's Comments on HECO and CA Guidelines and Standards for Recovery of Capital Costs Outside the RAM Cap and/or Through the REIP," opposing both the Joint Proposed REIP Framework and the HECO Proposed Standards and Guidelines.

On October 26, 2015, HECO and MECO filed applications for recovery of revenues "above the RAM Cap" for capital expenditures for plant placed in service in 2015.<sup>165</sup>

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<sup>165</sup>HECO filed its "Hawaiian Electric Application for Approval to Recover Certain 2015 Plant Addition Costs" in Docket No. 2015-0375 ("HECO Application"). MECO filed its "Maui Electric Application for Approval to Recover Certain 2015 Plant Addition Costs" in Docket No. 2015-0376 ("MECO Application").

The Consumer Advocate filed a Preliminary Statement of Position on November 13, 2015 and November 19, 2015, respectively, opposing both the HECO Application and the MECO Application.

HECO and MECO filed responses to the Consumer Advocate's Preliminary Statements of Position in Docket No. 2015-0375 and Docket No. 2015-0376 on December 8, 2015 and December 15, 2015, respectively.

On March 29, 2016, MECO withdrew its application in Docket No. 2015-0376.

On April 18, 2016, HECO amended its application in Docket No. 2015-0375, reducing the amount of requested revenue.

On August 3, 2016, in Docket No. 2015-0375, the commission dismissed the HECO Application in Order No. 33840 ("Order No. 33840"), concluding that it was not consistent with the RAM tariff.

## 2.

### Positions of the Parties

In response to the directives in the Schedule B Order, the HECO Companies and Consumer Advocate proposed standards and guidelines for the eligibility of projects and determination of the amount of eligible cost recovery above the RAM Cap or outside the RAM mechanism. As noted above, the Consumer Advocate and HECO Companies agreed upon and jointly submitted the

Joint Proposed REIP Framework. The HECO Companies separately filed the HECO Proposed Standards and Guidelines.

The Joint Proposed REIP Framework defines a revised and expanded version of the REIP approved by the commission. As characterized by the Consumer Advocate, the Joint Proposed REIP Framework represents

... [a]greements reached by the signatories that provide for expanded definitions, guidelines and standards for broader use of the existing REIP framework and corresponding surcharge mechanism. The expanded REIP is intended to provide cost recovery for qualifying project costs outside the RAM framework. It is the Consumer Advocate's belief that this greatly expanded REIP surcharge mechanism represents a third valuable opportunity for investment cost recovery that is supplemental to traditional rate cases and the modified and "capped" RAM. Furthermore, the proposed expanded REIP is consistent with and directly supportive of the State's objective to transition to a clean energy economy.<sup>166</sup>

The Joint Proposed REIP Framework is supported by the HECO Companies and the Consumer Advocate, but is opposed by COH. COH asserts that the Framework would weaken the controls on recovery of capital costs sought by the commission in this docket, would put the commission in an increasingly challenging position to review projects and cost recovery proposed by the utilities, and would extensively broaden the scope of projects eligible for

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<sup>166</sup>Consumer Advocate June 30, 2015 Comments at 2.



the REIP, and asserts that the Joint Proposed REIP Framework would essentially allow any project to be eligible for the REIP. COH expresses concerns regarding the need for careful analysis to consider the cost and rate impacts on utility customers.<sup>167</sup>

The HECO Proposed Standards and Guidelines provide definitions, outline criteria for eligibility of projects for cost recovery above the RAM Cap, identify specific projects approved prior to or pending at the time of the Schedule B Order, describe a mechanism for determining recovery of project costs above the RAM Cap, and outline procedures for application and review.

The Consumer Advocate opposes the HECO Proposed Standards and Guidelines, stating that the

mechanism is inconsistent with the apparent purpose of the RAM Cap, has not been shown to be financially needed by the Hawaiian Electric Companies after the REIP is expanded, is vaguely defined and would be administratively unworkable . . . .<sup>168</sup>

COH is opposed to the HECO Proposed Standards and Guidelines, stating that its comments pertaining to the Joint Proposed REIP Framework also apply to the HECO Proposed Standards and Guidelines.<sup>169</sup> COH thus asserts that HECO's proposal would weaken controls on recovery of capital costs, put the

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<sup>167</sup>COH June 30, 2015 Comments at 1-10.

<sup>168</sup>Consumer Advocate June 30, 2015 Comments at 2.

<sup>169</sup>COH June 30, 2015 Comments at 1.

commission in an increasingly challenging position to review projects and cost recovery proposed by the utilities, and extensively broaden the scope of projects eligible for the REIP.

Summarizing concisely, the HECO Companies support both the Joint Proposed REIP Framework and the HECO Proposed Standards and Guidelines. The Consumer Advocate supports the Joint Proposed REIP Framework but opposes the HECO Proposed Standards and Guidelines. COH opposes both the Joint Proposed REIP Framework and the HECO Proposed Standards and Guidelines. The other Parties have not stated positions regarding the proposals filed by the HECO Companies or the Consumer Advocate.

### 3.

#### Findings and Conclusions

##### a.

#### Joint Proposed REIP Framework

126. The HECO Companies and Consumer Advocate request that the commission approve the Joint Proposed REIP Framework in this docket.

127. The Joint Proposed REIP Framework was developed by the HECO Companies and the Consumer Advocate using, as a "starting point," the REIP Framework exhibit

("REIP Docket Framework Exhibit") proposed by the HECO Companies in Docket No. 2007-0416 ("REIP Docket").<sup>170</sup>

128. The commission notes that it generally approved "[t]he HECO Companies' proposed REIP" in the REIP Docket, subject to several conditions, but did not approve all the provisions included in the REIP Docket Framework Exhibit. For example, the commission denied the HECO Companies' proposal for a Consolidated Incentive mechanism, which was included in the provisions of the REIP Docket Framework Exhibit.<sup>171</sup>

129. The Joint Proposed REIP Framework differs from the REIP Docket Framework Exhibit in several substantial respects, including differences in the stated objectives, scope, and project eligibility criteria.

130. The REIP approved by the commission in the REIP Docket focuses on providing incentives to promote implementation of renewable energy resources. The issues in the REIP Docket derived, both procedurally and substantively, from the

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<sup>170</sup>As stated in the jointly submitted letter filed on June 15, 2015 in this docket, the Consumer Advocate and the HECO Companies used the proposed REIP Docket Framework Exhibit, set forth in Exhibit B of the HECO Companies' Reply Statement of Position filed on September 17, 2008, in Docket No. 2007-0416, as a starting point.

<sup>171</sup>Decision and Order, filed on December 30, 2009, in the REIP Docket at 31 ("December 30, 2009 Order").

second of the three issues identified for the Renewable Portfolio Standards docket, Docket No. 2007-0008:

What is the appropriate utility ratemaking structure to establish and include in the commission's RPS framework under HRS 269-95 to provide incentives that encourage electric utilities to use cost-effective renewable energy resources found in Hawaii to meet the RPS, while allowing for deviation from the standards in the event that the standards cannot be met in a cost-effective manner, or as a result of circumstances beyond the control of the utility that could not have been reasonably anticipated or ameliorated?<sup>172</sup>

131. Accordingly, the purposes of the REIP are characterized in the REIP Docket and the REIP Docket Framework Exhibit in terms of promoting the third-party development of renewable energy resources and maintaining existing renewable energy resources.

The purposes of the [REIP] once implemented by an electric utility are (a) to encourage development of and investment in renewable energy infrastructure projects in order to facilitate third-party development of renewable energy resources and maintain current renewable energy resources, and (b) to enhance energy choices for customers by providing a means for the Companies to recover their investment in Renewable Energy Infrastructure Projects in a timely fashion.<sup>173</sup>

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<sup>172</sup>December 30, 2009 Order at 3, citing Order No. 23316, filed March 23, 2007, in Docket No. 2007-0008.

<sup>173</sup>REIP Docket Framework Exhibit, III.A.1., at 5.

132. The HECO Companies and Consumer Advocate propose language in the Joint Proposed REIP Framework that would substantially broaden the objectives and scope of the REIP.

The purposes of the Renewable Energy Infrastructure Program are to support investment in and advancement of (a) renewable energy and Clean Energy Initiatives, (b) energy choices for customers, (c) grid modernization technologies, (d) energy conservation and efficiency, and (e) other undertakings of strategic importance to electric industry transformation by providing a means for the Companies to recover their Eligible Projects costs and investments in a timely fashion.<sup>174</sup>

133. For example, the REIP approved by the commission in the REIP Docket explicitly excludes recovery of utility-scale generation project costs.

- b. The electric utilities shall not seek to recover the costs of central station generation-related assets (such as a wind farm) or similar utility renewable energy generation assets through the REIP Surcharge.<sup>175</sup>

Language in the Joint Proposed REIP Framework would explicitly allow recovery of costs for utility scale generation projects, and would allow recovery of costs for non-renewable energy resources.

1. Projects and costs that may be eligible for inclusion in the Renewable Energy

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<sup>174</sup>Joint Proposed REIP Framework at 4.

<sup>175</sup>REIP Docket Framework Exhibit, III.B.1.b., at 7.

Infrastructure Program include the following examples, ...

...

- (e)     Utility     Scale     Generation.  
Electric utilities may seek recovery of the costs through the Surcharge for utility scale generation that is renewable generation or a generation project that can assist in the integration of more renewable energy onto the electrical grid;

... 176

134. The Joint Proposed REIP Framework also includes extensive new language and amended language providing substantial additional detail regarding REIP project eligibility, recoverable costs, application filing requirements and implementation of surcharges. The proposed language includes some provisions implementing and/or consistent with the conditions to the commission's approval of the REIP in the REIP Docket, as well as language apparently negotiated by the HECO Companies and Consumer Advocate in responding to the Schedule B Order.

135. In addition to the removal of provisions explicitly denied by the commission in the REIP docket,<sup>177</sup> and substantial generalization and broadening of the REIP objectives and scope,

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<sup>176</sup>Joint Proposed REIP Framework, III.B.1., at 5-6.

<sup>177</sup>The Joint Proposed REIP Framework omits language in the former exhibit that supported the Consolidation Incentive mechanism denied by the commission in the REIP Docket.

the new and/or amended language in the Joint Proposed REIP Framework includes, for example: (1) expanded and updated definitions; (2) more specific identification of costs eligible for recovery; (3) requirements that costs eligible for recovery shall be offset by known and measurable net savings or benefits; (4) exclusion of projects that are "... routine replacements of existing equipment or systems with like kind assets, relocations of existing facilities, restorations of existing facilities or other kinds of business as usual investments ...;" (5) provisions for recovery of deferred costs and deferral of costs for future surcharge recovery as specifically approved by the commission; (6) requirements for information to be provided in applications, including presentation of a detailed business case showing all expected costs and benefits, scheduling and reasonably anticipated operational impacts, a detailed schedule and budget for each element of the project, and specific criteria for determination of the used and useful status of the project; (7) surcharge implementation details; and (8) additional details regarding the REIP application, review and surcharge implementation process.

136. The commission notes that the adoption of the Joint Proposed REIP Framework would essentially constitute a repurposing of the REIP from a program designed to provide incentives to promote third-party implementation of renewable

projects, to a more generally applied mechanism providing surcharge recovery for substantial plant additions between general rate cases.

137. The commission will not, in this Order or in this docket, make substantial changes to the REIP. The REIP remains as approved in Decision and Order dated December 30, 2009 in the REIP Docket.

138. The commission does find, however, that the Joint Proposed REIP Framework includes provisions, agreed to by the HECO Companies and the Consumer Advocate, that can serve as guidelines regarding interim recovery of revenues for major projects placed in service between general rate cases, consistent with the purposes for the development of standards and guidelines identified in the Schedule B Order.<sup>178</sup>

139. Accordingly, utilizing the constructive language and provisions in the Joint Proposed REIP Framework, as appropriately amended, the commission establishes "Major Project Interim Recovery ("MPIR") Guidelines" consistent with and extending the provisions of the Schedule B Order, as described below and as provided in the Guidelines, attached to this Order as Attachment A.

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<sup>178</sup>Schedule B Order at 98.



140. While seeking to preserve many of the provisions agreed to by the HECO Companies and Consumer Advocate, the Guidelines differ from the Joint Proposed REIP Framework document in several respects, including the following substantial differences.

141. First, language providing descriptions, scope, purpose, and other specific references to the REIP, including the name of the document, were amended to remove any inference that changes are being made to the REIP, and to more appropriately reflect the broader scope of eligible projects and specific purposes for the Guidelines.

142. Second, specific references regarding recovery of deferred costs or expenses were removed. The Guidelines offer one possible means to provide for recovery of revenues for specific project net costs. Deferral of costs or expenses, as may be approved in any specific instance by the commission, remains a separate cost recovery option, which is not changed or replaced by the Guidelines.

143. Third, references to "AFUDC" rates and other prescriptive specifications of applicable rates of return on capital investments to determine amounts of MPIR recovery were removed. The applicable rates of return and other determinants of recovery through the MPIR adjustment mechanism will be considered and decided, based on specific pertinent circumstances, for each

project, at the time recovery for the major project is approved by the commission.

144. Fourth, language is added to clarify the scope of the period of time for which approval of revenue recovery applies:

III.C.2.f. Any approval of recovery of revenues for an Eligible Project through the MPIR adjustment mechanism pertains to (i) the period of recovery up until review of the recovery of revenues for the Eligible Project in the utility's next following general rate case and until new effective or interim rates become effective as part of the utility's next following rate case, or (ii) a period otherwise specified by the Commission at the time MPIR recovery is approved.

145. Fifth, the Guidelines include standards identified in the Schedule B Order identifying burden of proof and criteria for eligibility for interim recovery for major projects.

III.B.2 Eligibility for recovery of revenues through the MPIR adjustment mechanism is restricted to revenues for projects that HECO, MECO, or HELCO demonstrate to be (i) prudent and reasonable, (ii) to provide customer value, (iii) to enhance the affordability of energy services, and (iv) which are not directly or indirectly included in otherwise effective utility target revenues or other effective means of revenue recovery.

146. The Guidelines provide for the recovery of net costs of a Major Project; it is not a simple pass through of Major Project costs. As proposed and agreed to in principle by the HECO Companies and the Consumer Advocate in the Joint Proposed

REIP Framework, all costs recovered in accordance with the Guidelines shall be offset by benefits that are quantifiable and can be realized by the utility. As provided in sections III.C.2.c., and III.C.3.d. of the Guidelines:

III.C.2.c. All costs that are allowed to be recovered through the MPIR adjustment mechanism, shall be offset by any related benefits of the approved Eligible Project (e.g., cost savings, revenue enhancements offset by O&M expenses, avoided depreciation on retired utility plant, etc.), as those benefits are quantifiable and can be realized by the electric utility.

. . . .

III.C.3.c. Costs recovered through MPIR adjustment mechanism recovery shall be offset by all reasonably determinable operational savings or benefits resulting from the Eligible Projects, (including accumulated depreciation and accumulated deferred income tax reserves, reductions in operating and maintenance expenses, related additional revenues, etc.) to the extent such savings or benefits are not passed to ratepayers through energy cost or other adjustment clause mechanisms, and to the extent that such savings or benefits can reasonably be quantified or estimated. Savings and benefits shall be offset as they are realized to the extent feasible. A business case study shall be submitted with each application identifying and quantifying all operational and financial impacts of the Eligible Project and illustrating the cost/benefit tradeoffs that justify proceeding with the project to the

extent that such impacts can reasonably be determined.<sup>179</sup>

147. The Schedule B Order in this docket made provisions for each of the HECO Companies to request recovery for substantial plant additions between general rate cases. As provided in the Schedule B Order, any such recovery was allowed only as explicitly determined by the commission, on a case-by-case basis, in the context of review of an application to expend funds pursuant to General Order No. 7. In making these provisions in the Schedule B Order, the commission did not specify or limit eligibility for recovery to specific types or categories of resources. Nor did the commission prescribe whether any allowed recovery would be through a particular mechanism (e.g., REIP, allowances through the RBA above the RAM Cap, surcharge, deferral of expenses).

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<sup>179</sup>The commission notes that the term "net" as applied to the terms "savings" and "benefits" was removed from the corresponding text in the Joint Proposed REIP Framework in order to clarify that, the amount that project costs are offset to determine recoverable costs is not the "net" amount that savings or benefits exceed project costs. The terms "known and measurable" and "quantifiable" as applied to the terms "savings" and "benefits" were amended to "reasonably determinable," which shall mean "quantifiable or reasonably estimable." Thus, the "net costs" recoverable through the MPIRS are the amount that Major Project costs exceed the amount of savings and benefits that can be reasonably determined (i.e., quantified or reasonably estimated) and can be realized by the utility.

148. The Guidelines and other pertinent provisions in the instant Order supersede and, where not consistent or where more specific, replace the provisions for recovery of revenues for Major Projects between general rate cases in the Schedule B Order.

149. Accordingly, recovery of revenues for costs of Major Projects placed in service between general rate cases will be through the MPIR adjustment mechanism. The HECO Companies may request interim recovery of revenues for projects that are not Eligible Projects as defined in the Guidelines through other means, including, for qualifying projects, the REIP.

150. The commission notes that two recent HECO Companies' applications seeking approval of utility-scale generation projects pursuant to General Order No. 7 propose recovery of costs through the REIP or the Joint Proposed REIP Framework.<sup>180</sup> As noted above, the existing approved REIP framework does not allow for recovery of costs for utility-scale generation projects. The Joint Proposed REIP Framework has not been approved by the commission. The Guidelines established by this Order differ from the Joint Proposed REIP Framework in several respects and were not in effect at the time of these applications.

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<sup>180</sup>See Docket No. 2016-0342, Application filed October 3, 2016 at 3 and 5; and Docket No. 2016-0345, Application filed October 3, 2016 at 2.

b.

HECO Proposed Standards and Guidelines

151. In addition to filing and supporting the Joint Proposed REIP Framework, the HECO Companies submitted the HECO Proposed Standards and Guidelines.

152. As noted above, the Consumer Advocate and COH oppose the HECO Proposed Standards and Guidelines.

153. The HECO Proposed Standards and Guidelines lay out definitions, criteria, and a method for determining the amount of additional revenue to be allowed "above" the RAM Cap between general rate cases. In short, the proposed method would attempt to determine the amount of revenue allowed for net plant additions "below" the RAM Cap to determine the balance of expenditures for plant additions "above" the RAM Cap that would be eligible for additional revenue recovery.

154. The HECO Proposed Standards and Guidelines define several terms describing different categories of capital projects. These terms include "Baseline project," "Major Project," and "Major Baseline Project." The first two of these terms are defined essentially consistent with the definitions provided in the RAM tariffs and in the Schedule B Order.<sup>181</sup>

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<sup>181</sup>HECO Proposed Standards and Guidelines at 1.

155. The term "Major Project" is defined as "any capital project subject to review and approval under the Commission's General Order No. 7."<sup>182</sup>

156. The term "Baseline project" is defined as "any capital project that is not a Major Project."<sup>183</sup>

157. The term "Major Baseline Project" is not used or defined in the RAM tariffs or previous commission orders, and appears to be created initially in and by the HECO Proposed Standards and Guidelines.

158. As defined in the HECO Proposed Standards and Guidelines,

"Major Baseline Project" is any baseline project(s) subject to review and approval by the Commission for recovery through the RAM above the applicable RAM Cap. These projects may include groupings under a programmatic approach to categorize and consolidate related baseline projects for consideration. For example, multiple baseline projects that serve a related purpose or are part of a specific program may be consolidated as a Major Baseline Project for purposes of application and review. Major Baseline Projects do not include baseline projects for which recovery has been approved under the REIP surcharge.<sup>184</sup>

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<sup>182</sup>HECO Proposed Standards and Guidelines at 1.

<sup>183</sup>HECO Proposed Standards and Guidelines at 1.

<sup>184</sup>HECO Proposed Standards and Guidelines at 1.

159. The commission notes here that, according to the definitions set out by the HECO Companies, Major Baseline Projects are defined as projects that are not "subject to review and approval under the Commission's General Order No. 7."<sup>185</sup> As described in more detail below, the commission has explicitly clarified that only Major Projects that are subject to review and approval under the commission's General Order No. 7 procedures are eligible for applications for recovery "above" the RAM Cap as provided in the Schedule B Order.

160. As noted above, on October 26, 2015, HECO and MECO filed applications for recovery of revenues "above the RAM Cap" for capital expenditures for plant placed in service in 2015. MECO later withdrew its application on March 29, 2016. The HECO Application was dismissed by the commission on August 3, 2016, in Docket No. 2015-0375.

161. The HECO Application relied on the definitions and procedures laid out in the HECO Proposed Standards and Guidelines.<sup>186</sup>

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<sup>185</sup>"Major Baseline Projects" are defined as a subset of "Baseline projects." "Baseline projects," are defined as projects that are not "Major Projects" subject to review and approval under the Commission's General Order No. 7.

<sup>186</sup>Order No. 33840 at 16.



162. In its review of the HECO Application, the commission found as follows:

8. Specifically, HECO relies on the application of a definition of "Major Baseline" Projects conceived in the Companies' proposed standards and guidelines that is inconsistent with the definition of Major Projects that are eligible for recovery above the RAM Cap, in accordance with Order No. 32735.

9. Order No. 32735 provides for the recovery of revenues for Major Projects above the RAM Cap in specified circumstances. Order No. 32735, in turn, defines "Major Projects" as projects that are subject to the commission's review and approval, pursuant to General Order No. 7:

. . . . The commission notes that in the RAM tariffs, Major Capital Projects are defined as "those capital investment projects that require an application before and approval by the Commission under the Commission's General Order No. 7, but excluding those projects included in the Clean Energy Infrastructure Surcharge." In this Order, the term "Major Projects" refers to all projects subject to review and approval under the commission[']s General Order No. 7.<sup>187</sup>

163. As the commission found in the specific instance of HECO's Application in Docket No. 2015-0375, the commission finds more generally here that, regarding recovery of revenues above the

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<sup>187</sup>Findings of Fact Nos. 8 and 9 from Order No. 33840, at 18-19, citing to reference in Schedule B Order at 72, n.117 (emphasis in original).

RAM Cap for Major Baseline Projects, as they are defined in the HECO Proposed Standards and Guidelines, the HECO Proposed Standards and Guidelines are not consistent with the Schedule B Order. Projects eligible for application for recovery of revenue above the RAM Cap pursuant to the provisions in the Schedule B Order are Major Projects which are subject to review and approval in accordance with the commission's General Order No. 7.

164. The HECO Standards and Guidelines set out criteria and a method to determine what categories of projects are eligible for cost recovery "under" the RAM Cap, and "above" the RAM Cap.<sup>188</sup> The proposed method used to determine what costs can be recovered above the RAM Cap relies on an initial determination of the amount of plant additions that are recovered under the RAM Cap.<sup>189</sup> After determining the amount of plant additions recovered below the RAM Cap, any further costs for projects that are otherwise eligible for cost recovery (i.e., projects that are demonstrated to be prudent and reasonable, provide customer value, are affordable, not recovered by other cost recovery mechanisms) would be recoverable above the RAM Cap.<sup>190</sup>

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<sup>188</sup>HECO Proposed Standards and Guidelines at 2-3.

<sup>189</sup>HECO Proposed Standards and Guidelines at 2.

<sup>190</sup>HECO Proposed Standards and Guidelines at 3-5.

165. The method of determining the amount of revenue recoverable above the RAM Cap proposed in the HECO Proposed Standards and Guidelines would require an accurate determination of the plant additions that are included in the target revenues as adjusted by the RAM adjustments as limited by the RAM Cap. The commission notes that this is problematic for several reasons. As observed by the Consumer Advocate:

Hawaiian Electric Companies' proposal is premised on being able to distinguish the projects that were recovered under the cap (and, through the expanded REIP, if allowed). However, if allowed, the proposal would require a reconciliation process based on a number of gross assumptions. Given the nature of the capped RAM, the amount of net plant additions that could be funded under present base and RAM rate levels is not known or knowable. Base rates and RAM increases are specified in overall dollar terms and not based upon efforts to discretely identify specific net plant additions, depreciation, return on rate base, etc. There is no sure way to know how much plant investment or which capital projects can be funded under the cap and to then determine which project should be recoverable above the cap.<sup>191</sup>

166. The method of determining the amount of revenues for plant additions included below the RAM Cap used in the HECO Proposed Standards and Guidelines is based on and uses the following approximation as a calculation formula:

The amount of plant additions recovered under the RAM Cap in any given RAM period is

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<sup>191</sup>Consumer Advocate June 30, 2015 Comments at 4.

approximately equal to the rate of depreciation and amortization on approved utility rate base, plus increments of effective rate base indexed on general inflation, as applicable.<sup>192</sup>

167. The HECO Proposed Standards and Guidelines rely on paragraph 78 in the Schedule B Order as the basis for the approach and method used to determine revenues for plant additions below the RAM Cap.<sup>193</sup> As stated in the Schedule B Order:

78. With respect to recovery of revenues for capital projects, the amended RAM will thus allow continued automatic revenue recovery for capital project net plant additions in an amount effectively in rough approximation to the rate of depreciation and amortization on approved utility rate base, plus an increment of effective rate base indexed on general inflation. Beyond that, the amended RAM is intended to allow recovery of revenues for additional capital projects with prior approval by the commission.<sup>194</sup>

168. The commission finds that the approximation formula relied upon in the HECO Standards and Guidelines is not an appropriate basis or method to determine the amount of revenues for net plant additions that is included "under" the RAM Cap as proposed in the HECO Proposed Standards and Guidelines.

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<sup>192</sup>HECO Proposed Standards and Guidelines at 2, citing reference to the Schedule B Order at 6.

<sup>193</sup>HECO Companies letter supporting and transmitting the HECO Proposed Standards and Guidelines, dated June 15, 2015, at 4.

<sup>194</sup>Schedule B Order at 82 (identical text also in the Schedule B Order at 6, n.4).

169. First, the commission notes that the "rough" approximation in paragraph 78 was intended and used for expository purposes, was interpretive rather than operative, and was not intended to be used as a standard, metric, or method for determining amounts of allowed revenues as proposed in the HECO Proposed Standards and Guidelines.

170. Second, although not clarified by the language in paragraph 78, the commission notes here that the approximation in paragraph 78 and the formula used in the HECO Proposed Standards and Guidelines, are roughly correct in principle only in so far as they refer to recovery of revenues for net plant additions in the Rate Base RAM Adjustment.<sup>195</sup> As pointed out by the Consumer Advocate, there are other factors that could affect the amount of revenues "under" the RAM Cap that could be used to fund net plant additions.<sup>196</sup> The RAM adjustments providing for changes in rate base also take into account other adjustments,

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<sup>195</sup>The approximation in paragraph 78 interpretively recites the arithmetic used in determining the allowed change in rate base in the Rate Base RAM adjustment. See Schedule D1 of the standardized calculation templates filed in each of the annual decoupling submittals by each of the HECO Companies. In the calculation of the Net Cost of Plant in Service used in the determination of allowed rate base in the annual Rate Base RAM Adjustment, the allowed change in Net Plant is calculated as the sum of Baseline Capital Plant Additions plus Major Project Additions offset by Accumulated Depreciation/Amortization Change.

<sup>196</sup>Consumer Advocate June 30, 2015 Comments at 5.

including changes in accumulated deferred income taxes and contributions in aid of construction. Furthermore, total RAM adjustments include substantial adjustments in addition to the Rate Base RAM Adjustment, notably including the Depreciation and Amortization RAM Adjustment.

171. The Consumer Advocate identifies similar concerns:

If the proposed above the RAM cap procedure is allowed, it would not seem to be consistent with the apparent imposition of fiscal constraint and also raise a number of complex issues that would need to be dealt with each such application filed under the Hawaiian Electric Companies' proposal. The Hawaiian Electric Companies attempt[] to resolve some of these complex issues by suggesting that "[t]he amount of plant additions recovered under the RAM Cap in any given RAM period [to be] approximately equal to the rate of depreciation and amortization on approved utility rate base, plus increments of effective rate base indexed on general inflation, as applicable." While this approach to a "rough approximation" was suggested by the Commission in Order No. 32735, the Consumer Advocate respectfully submits that such an estimate is inherently inaccurate and also fails to consider the continuous growth in the Hawaiian Electric Companies' Accumulated Deferred Income Taxes ("ADIT") as a significant source of funding for net plant expenditures.<sup>197</sup>

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<sup>197</sup>Consumer Advocate June 30, 2015 Comments at 5 (footnotes omitted).

172. In order to support the proposed method of determining the amount of revenue for plant additions recovered under and above the RAM Cap, the HECO Proposed Standards and Guidelines propose several modified reporting protocols and procedures that would affect the Companies' annual capital expenditures budget reports, annual Capital Projects Completion Report, quarterly Capital Project Status Reports, and the annual decoupling RBA/RAM submittals.<sup>198</sup> Reporting would require separate tracking and reporting of capital project revenues to be recovered below and above the RAM Cap.<sup>199</sup>

173. The proposed method of determining the amount of revenue to be recovered below and above the RAM Cap would result in additional complexity in the calculations of RBA and RAM Adjustments in the annual decoupling submittals.

The proposed above the Cap mechanism would add additional layers of calculation into the annual RAM filing, even though review time is barely adequate for the traditional RBA/RAM reviews without such profound changes. Notably, the RAM template has already been expanded significantly to accommodate the calculation of the new RAM Cap as well as the handling of "exceptional and other matters" outside of the Cap. While the Hawaiian Electric Companies' Exhibit A provides no details of how above the Cap calculations might be assembled, it is obvious that isolation of the costs of Major and

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<sup>198</sup>HECO Proposed Standards and Guidelines at 2-3.

<sup>199</sup>HECO Proposed Standards and Guidelines at 2-3.

Major Baseline projects for such treatment would complicate the embedded rolling averages and traditional RAM treatment of such costs, notwithstanding the complications of determining which projects are above the Cap. When the need to isolate the depreciation recoveries, accumulated depreciation, accumulated deferred income tax and CIAC values associated with such separately treated projects is also considered, the potential complexity grows significantly. Given the possibility that one or more above the Cap Major Project or Major Baseline Project Applications may involve docketed proceedings that are open and unresolved at the time the annual RBA/RAM filings are submitted, it may be impossible to know with certainty whether to include the subject projects within the traditional RAM calculations or not.<sup>200</sup>

174. The commission finds and concludes that the HECO Proposed Standards and Guidelines are not reasonable and should be rejected for several reasons.

175. As found above, the approximation formula derived from paragraph 78 of the Schedule B Order and relied upon in the HECO Standards and Guidelines is not an appropriate basis or method to determine the amount of revenues for net plant additions that is included "under" the RAM Cap as proposed in the HECO Proposed Standards and Guidelines.

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<sup>200</sup>Consumer Advocate June 30, 2015 Comments at 6.



176. More generally, the commission finds that the general approach used in the HECO Standards and Guidelines, which relies on a determination of the amount of revenues for plant additions recovered under the RAM Cap, is impractical, unreliable and unreasonably problematic. As proposed in the HECO Standards and Guidelines, this approach would require tracking and reporting of additional separated categories of revenues in several venues that are not resolutely determinable, could become increasingly complex, and could be subject to excessive dispute.

177. Furthermore, the commission observes that adopting a mechanism, as proposed in the HECO Standards and Guidelines, that is designed to make the Companies whole for expenditures that are arithmetically determined to be above the RAM Cap, would not be consistent with the commission's objectives, identified in this docket and addressed in the Schedule B Order, to address and mitigate the problematic aspect of the RAM that would allow increases in utility baseline expenditures to automatically result in increased revenues.

V.

ORDERS

THE COMMISSION ORDERS:

1. Within thirty (30) days of the date of this Order, the HECO Companies shall file a set of proposed initial tariffs to implement conventional stand-alone PIMs, consistent with the provisions in this Order. The tariffs should be accompanied by exhibits that show the historical data utilized and the formulas and calculations used for the derivation of the initial performance target levels and deadbands. The HECO Companies shall provide examples showing the calculation of performance incentives under several hypothetical levels of future performance, and identify the disposition of any details regarding the implementation of the PIMs not explicitly addressed in this Order or the Companies' previous filings in this docket.

2. Within sixty (60) days of the filing date of this Order, Parties may file comments on the Companies' filing made pursuant to Ordering Paragraph 1, above. Parties may provide alternate proposed tariff language. Parties should file evidentiary support for proposals to resolve details or differences between the Parties' positions, except that the commission directs the Parties not to file arguments duplicative of, or inconsistent with, the provisions of this Order.

3. The commission will issue an order resolving any matters related to proposed tariff language following the filing of the Parties' comments described in Ordering Paragraph 2, above, and will direct the Companies to file final tariffs consistent with that order to implement the conventional PIMs, as discussed herein.

4. The commission declines to adopt any specific rate case procedural changes in this proceeding, but encourages the Parties to consider proposing procedures that will contribute to increased efficiencies in the HECO Companies' pending and subsequent rate cases.

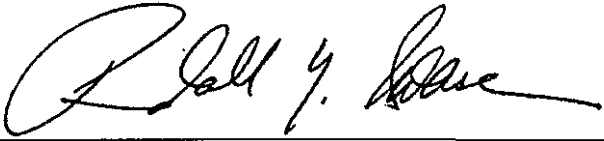
5. As discussed above, the commission intends to require separation and removal of all test year fuel and purchased energy expenses from base rates, with recovery of these costs through an appropriately modified energy cost adjustment mechanism, in the pending and subsequent general rate cases for the HECO Companies.

6. As set forth in this Order, recovery of revenues for costs of Major Projects placed in service between general rate cases will be in accordance with the Guidelines (Attachment A to this Order). The HECO Companies may request interim recovery

of revenues for projects that are not eligible for MPIR recovery through other means, including, for qualifying projects, through the REIP.

DONE at Honolulu, Hawaii APR 27 2017.

PUBLIC UTILITIES COMMISSION  
OF THE STATE OF HAWAII

By   
Randall Y. Iwase, Chair

By   
Lorraine H. Akiba, Commissioner

By   
Thomas C. Gorak, Commissioner

APPROVED AS TO FORM:

  
Caroline C. Ishida  
Commission Counsel

2013-0141.ljk

## **MAJOR PROJECT INTERIM RECOVERY ("MPIR") GUIDELINES**

### **I. DEFINITIONS**

As used in these Guidelines, unless the context clearly requires otherwise:

"Commission" means the Public Utilities Commission of the State of Hawaii.

"Complex projects" are projects that materially affect numerous aspects of the utility's operations, costs and/or earnings.

"Costs" means, inclusively, costs associated with return on and recovery of capital investment and/or expenses.

"Electric utility" or "utility" means a provider of electric utility service that is regulated by and subject to the Commission's jurisdiction pursuant to Chapter 269, HRS.

"Eligible Projects" are approved major projects eligible for revenue recovery through the MPIR adjustment mechanism as provided in these Guidelines.

"Guidelines" or "MPIR Guidelines" means this document and related effective provisions, as set forth in the Commission's implementing orders in Docket No. 2013-0141.

"Hawaiian Electric" or "HECO" means Hawaiian Electric Company, Inc.

"HECO Companies" or "Hawaiian Electric Companies" or "Companies" means Hawaiian Electric, Maui Electric, and Hawai'i Electric Light, collectively.

"Hawai'i Electric Light" or "HELCO" means Hawaii Electric Light Company, Inc.

"HRS" means the Hawaii Revised Statutes.

"Major Project" means a resource plant addition subject to application and review in accordance with the applicable provisions of the Commission's General Order No. 7.

"MPIR adjustment" means an adjustment to the utility's target revenues effectuated through the utility's Revenue Balancing Account tariff, determined in accordance with these Guidelines.

"MPIR adjustment mechanism" means the provisions for interim recovery of major project costs provided for in these guidelines.

"Maui Electric" or "MECO" means Maui Electric Company, Limited.

## **ATTACHMENT A**

"REIP" means the Renewable Energy Infrastructure Program.

"RBA" means the Revenue Balancing Account provisions established by the utility's Revenue Balancing Account tariff.

"RPS" or "Renewable Portfolio Standard" is defined as set forth in HRS § 269-92.

"Renewable energy" is defined as set forth in HRS § 269-91.

"Utility System" means the electric system owned and operated by a utility (including any non-utility owned facilities that are interconnected to the system) consisting of power plants, transmission and distribution lines, and related equipment for the production and delivery of electric power to the public.

## II. MPIR ADJUSTMENT MECHANISM

### A. PURPOSE AND SCOPE OF THE MPIR ADJUSTMENT MECHANISM

1. Purpose and Scope. To provide a mechanism for recovery of revenues for net costs of approved Eligible Projects placed in service between general rates cases, that is not provided for by other effective tariffs.

### B. COST RECOVERY

1. Recovery of revenues for Major Project costs. Recovery of revenues through the MPIR adjustment mechanism shall be as found to be reasonable and explicitly allowed by order of the Commission, on a case by case basis, in the review of Major Projects in accordance with the applicable provisions of General Order No. 7.
2. Prohibition of duplicative cost recovery. Notwithstanding any other specific provisions in these Guidelines, the MPIR adjustment mechanism shall not collect or recover revenues for costs or expenses recovered through other effective tariffs or revenue recovery mechanisms. The utility shall have the burden of proof in an application for recovery of revenues through the MPIR adjustment mechanism that recovered revenues shall not be duplicative.
3. Except as otherwise provided in these Guidelines, an electric utility shall be able to seek, through the ratemaking process or other effective mechanisms (i.e., base rates, Revenue Adjustment Mechanism or the REIP Surcharge), recovery of the reasonable and approved capital costs and expenses of Eligible Projects.

### III. MPIR ADJUSTMENT MECHANISM PROVISIONS

#### A. DESCRIPTION OF THE MPIR ADJUSTMENT MECHANISM

1. The MPIR adjustment mechanism is a reconciled cost recovery mechanism to provide opportunity for reasonable recovery of specifically allowed revenues for the net costs of approved Eligible Projects placed in service between general rate cases under circumstances wherein cost recovery is limited by a revenue cap and is not provided for by other effective recovery mechanisms.

#### B. ELIGIBLE PROJECTS

1. Projects and costs that may be eligible for recovery through the MPIR adjustment mechanism are Major Projects subject to review and approval in accordance with the applicable provisions of General Order No. 7, including but not restricted to the following illustrative examples, subject to the Commission's approval in accordance with these Guidelines:
  - (a) Infrastructure that is necessary to connect renewable energy projects. Infrastructure projects such as transmission lines, interconnection equipment and substations, which are necessary to bring renewable energy to the system. For example, renewable energy projects, such as wind farms, solar farms, biomass plants and hydroelectric plants, not located in proximity to the electric grid must overcome the additional economic barrier of constructing transmission lines, a switching station and other interconnection equipment. Building infrastructure to these projects will encourage additional renewable generation on the grid;
  - (b) Projects that make it possible to accept more renewable energy. Projects that can assist in the integration of more renewable energy onto the electrical grid. For example, new firm generation or modifications to firm generation to accept more variable renewable generation or energy storage and pumped hydroelectric storage facilities that allow a utility to accept and accommodate more as-available renewable energy;
  - (c) Projects that encourage clean energy choices and/or customer control to shift or conserve their energy use. Projects that can encourage renewable choices, facilitate conservation and efficient energy use, and/or otherwise allow customers to control their own energy use. For example, smart meters would allow customers to monitor their own consumption and use of electricity and allow for future time-based pricing programs. Systems such as automated appliance switching would

provide an incentive to customers to allow a utility to mitigate sudden declines in power production inherent in as-available energy;

- (d) Approved or Accepted Plans, Initiatives, and Programs. Capital investment projects and programs, including those transformational projects identified within the Companies' ongoing planning and investigative dockets, as such plans may be approved, modified, or accepted by the Commission, and projects consistent with objectives established in investigative dockets;
- (e) Utility Scale Generation. Electric utilities may seek recovery of the costs through the MPIR adjustment mechanism for utility scale generation that is renewable generation or a generation project that can assist in the integration of more renewable energy onto the electrical grid;
- (f) Grid Modernization projects. Projects such as smart meters, inverters, energy storage, and distribution automation to enable demand response.

- 2. Eligibility for recovery of revenues through the MPIR adjustment mechanism is restricted to revenues for projects that HECO, MECO, or HELCO demonstrate to: (i) be prudent and reasonable, (ii) provide customer value, (iii) enhance the affordability of energy services, and (iv) which are not directly or indirectly included in otherwise effective utility target revenues or other effective means of revenue recovery.

#### C. COST RECOVERY, MPIR ADJUSTMENT MECHANISM ELEMENTS, APPLICATIONS AND IMPLEMENTATION

- 1. Prior Commission approval shall be received for the costs of Eligible Projects to be recovered through the MPIR adjustment mechanism.
- 2. Elements of the MPIR adjustment mechanism.
  - a. Electric utilities may seek to recover Eligible Projects costs, as described in 2(b), through the MPIR adjustment mechanism.
  - b. Costs eligible for the MPIR adjustment mechanism include:
    - (i) Return on the net of tax average annual undepreciated investment in allowed Eligible Projects during MPIR for each project at rate of return to be determined in the review of each Eligible Project application, as approved by the commission;



- (ii) Recorded depreciation accruals (at a rate and methodology to be determined in review of each project's application, and as approved by the Commission) to begin on the following January 1<sup>st</sup> after the month of the in-service date of the Project;
  - (iii) Other relevant costs, applicable taxes, and/or offsetting cost savings, approved by the Commission.
- c. All costs that are allowed to be recovered through the MPIR adjustment mechanism, shall be offset by any related net benefits of implementation of the approved Eligible Project (e.g., cost savings, revenue enhancements offset by O&M expenses, avoided depreciation on retired utility plant, etc.), as those net benefits are quantifiable and can be realized by the electric utility.
- d. Project details, including the period of recovery of the Project's cost, appropriate depreciation amounts and other Project details, will be described within the business case included with the application for approval for recovery of costs through the MPIR adjustment mechanism.
- e. Prior Commission approval shall be received in order for the costs of Eligible Projects to be included for cost recovery through the MPIR adjustment mechanism. Authorization to include recovery of costs for any specific project through the MPIR adjustment mechanism will ordinarily be granted or denied at the time the Commission issues a decision and order with respect to the proposed commitment of expenditures for the project in accordance with the applicable provisions of the Commission's General Order No. 7. All costs proposed to be recovered through the MPIR adjustment mechanism will be limited to amounts approved in advance by the Commission.
- f. Any approval of recovery of revenues for an Eligible Project through the MPIR adjustment mechanism pertains to (i) the period of recovery up until review of the recovery of revenues for the Eligible Project in the utility's next following general rate case and until new effective or interim rates become effective as part of the utility's next following rate case, or (ii) a period otherwise specified by the Commission at the time MPIR recovery is approved.
- g. Recovery of incurred Eligible Project costs that exceed the amounts approved through the MPIR adjustment mechanism may be requested and considered for inclusion in the revenue requirements in subsequent rate cases, subject to review and approval by the Commission.

3. Applications for Recovery through the MPIR adjustment mechanism

- a. With respect to applications seeking approval to utilize the MPIR adjustment mechanism for cost recovery, the electric utility bears the burden of proof that all project costs proposed for MPIR treatment meet the criteria specified herein and are not routine replacements of existing equipment or systems with like kind assets, relocations of existing facilities, restorations of existing facilities, or other kinds of business-as-usual investments.
- b. Application for recovery of revenues through the MPIR adjustment mechanism shall be made in conjunction with and as part of an application pursuant to General Order No. 7.
- c. Costs recovered through the MPIR adjustment mechanism shall be offset by all known and measurable operational net savings or benefits resulting from the Eligible Projects, (including accumulated depreciation and accumulated deferred income tax reserves, reductions in operating and maintenance expenses, related additional revenues, etc.) to the extent such savings or benefits are not passed on to ratepayers through energy cost or other adjustment clause mechanisms, and to the extent that such savings or benefits can reasonably be quantified. Net savings and benefits shall be offset as they are realized to the extent feasible. A business case study shall be submitted with each application identifying and quantifying all operational and financial impacts of the Eligible Project and illustrating the cost/benefit tradeoffs that justify proceeding with the project to the extent that such impacts can reasonably be determined.
- d. Application for Eligible Projects hereunder shall be made, pursuant to General Order No. 7 procedures. Smaller qualifying capital projects that are similar in nature or directly related in purpose may be combined or grouped into programs for review in accordance with General Order No. 7 procedures. Applications shall explain each basis for claimed MPIR eligibility, indicating the linkage of the project to any previously submitted planning studies, previously submitted construction budgets and any relevant active Commission dockets. Applications shall also include the information set forth in the following paragraphs (e) through (i).
- e. A detailed business case study shall be included, covering all aspects of the planned investments and activities, indicating all expected costs, benefits, scheduling and all reasonably anticipated operational impacts. The business case shall reasonably document and quantify the

cost/benefit characteristics of the investments and activities, indicating each criterion used to evaluate and justify the project, including consideration of expected risks and ratepayer impacts. The business case should also clearly outline how it will advance transformational efforts with appropriate quantifications, to the extent such quantifications can reasonably be determined.

- f. A detailed schedule and budget for each element of the planned investment and activities shall be submitted, quantifying any contingencies, risks, and uncertainties, and indicating planned accounting and ratemaking procedures and expected net customer impacts.
- g. Applications must state the specific criteria that are proposed for determination of used and useful status of the project, to ensure that no costs are deferred or recovered for new assets that are merely commercially available, but are not being used to provide service to ratepayers.
- h. Recoverable costs shall be limited to the lesser of actual net incurred project/program costs or Commission-approved amounts, net of savings.
- i. Complex projects may be eligible for recovery through the MPIR adjustment mechanism, when supported by sufficient detailed business case analysis and documentation of reasonably quantifiable expected impacts, costs and benefits resulting from such projects.
- j. Parties to the proceedings on the applications for recovery of costs through the MPIR adjustment mechanism shall endeavor to complete procedural steps to allow for approval of the application within seven months of the date of application. The Companies acknowledge that the procedural schedule for MPIR for complex projects may take longer than projects that do not affect numerous aspects of the utility's operations, expenses, or earnings.

4. Implementation of MPIR adjustments.

- a. The existence of these MPIR provisions does not constitute any assurance of ultimate entitlement to:
  - (i) approval for the commitment of funds for any specific project,
  - (ii) approval to include the costs for any specific project through the MPIR adjustment mechanism, or

- (iii) approval to begin cost recovery (i.e., depreciation) or accelerate cost recovery for any specific project using the MPIR adjustment mechanism.
- b. MPIR adjustments approved by the commission in accordance with these Guidelines shall be implemented as an adjustment to the utility's target revenues implemented in accordance with the utility's RBA tariff. MPIR adjustments shall be excluded from the calculation of the basis for determining the RAM Cap and shall not be limited by the RAM Cap.<sup>1</sup>
- c. Recovery of revenues for newly approved projects shall be included in the MPIR adjustment in accordance with a Commission order specifying the allowed recovery amount and period.
- d. Collection and reconciliation of revenues recovered through MPIR adjustments shall be implemented through the utility's RBA Rate Adjustment and RBA tariff provisions. The accrual, collection and reconciliation of revenues through the MPIR adjustment mechanism for each Major Project shall be documented and reviewed in the filing and review of the utility's RBA transmittals filed on or before March 31 of each year, in accordance with the utility's RBA tariff.
- e. Accrual of revenues approved for recovery through the MPIR adjustment mechanism for a Major Project shall commence upon certification of the Major Project completion and/or in-service date in accordance with terms approved by the commission at the time cost recovery through the MPIR adjustment mechanism is approved in the applicable General Order No. 7 proceeding.
- f. The accrual of revenues approved for recovery through the MPIR adjustment mechanism shall terminate (i) when and to the extent that the recovery of net costs is incorporated in base rates, such as when interim rates become effective as part of a utility's rate case, or (ii) when and to the extent that recovery of net costs is affected by other cost recovery means, or (iii) at a time, or according to, criteria specified by the Commission at the time recovery through the MPIR adjustment mechanism is approved.

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<sup>1</sup>See Schedule B Order at 94-95 (paragraph 107).

- g. Any over-recoveries or under-recoveries of revenues under the MPIR adjustment mechanism shall be refunded or collected, with interest, in accordance with the reconciliation provisions in subpart (d) above.
- h. MECO may propose a mechanism or methods to provide separate recovery of Major Project costs for its Maui, Molokai, and Lanai divisions, otherwise consistent with these Guidelines.

CERTIFICATE OF SERVICE

The foregoing order was served on the date of filing by mail,  
postage prepaid, and properly addressed to the following parties:

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Certificate of Service

Page 2

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